

REPORT FOR DECISION



MEETING: CABINET
OVERVIEW & SCRUTINY COMMITTEE

DATE: 20 July 2016
31 August 2016

SUBJECT: CAPITAL OUTTURN 2015/16

REPORT FROM: DEPUTY LEADER OF THE COUNCIL AND CABINET
MEMBER FOR FINANCE AND HOUSING

CONTACT OFFICER: STEVE KENYON, INTERIM EXECUTIVE DIRECTOR
OF RESOURCES AND REGULATION

TYPE OF DECISION: CABINET (KEY DECISION)

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY:

PURPOSE/SUMMARY:

This report provides Members with details of:

- The capital outturn figures in respect of the last financial year 2015/16;
- Major variances between the Revised Estimate and the Outturn;
- The financing of the Capital Programme in 2015/16;
- Re-profile of budgets/allocations and slippage of funding into 2016/17;
- Details of the capital receipts realised during the year.

OPTIONS & RECOMMENDED OPTION

Members are asked to:

- a) Note the final capital outturn for 2015/2016, and explanations for major variances (Appendix A)
- b) Note the financing of the Capital Programme in 2015/16 (Paragraph 3.5)
- c) Consider and approve requests for re-profiling (£1.321m) and slippage (£15.694m) into

2016/17, along with the associated funding (Appendix A)

Recommended Option:

To approve the recommendations set out above.

IMPLICATIONS:

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

INTERIM DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	20/7/16		

Scrutiny Commission		Committee	Council
Overview & Scrutiny Committee 31/8/16			

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 an approved 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 that include borrowing, capital grants, external contributions, revenue contributions, reserves 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 at year end, including any outstanding capital creditors and debtors that are accounted for within final figures. These are subsequently reconciled with the actual amounts that are paid out or received in the following financial year.
- 1.4 Accruals are also shown at the end of the financial year for grant funding to be claimed that support schemes started during the year and are dependant on externally provided funds.
- 1.5 The indications for supported capital allocations from the government are now made on a two to three year basis with firm indications for amounts allocated for each Authority being supplied for the following year. This means that the certainty of finances for schemes extending over one year is now greater and managers can plan, although risk aware, for longer term schemes. There is still only a limited number of capital grants that can be carried forward to fund schemes that have slipped between financial years.
- 1.6 The report also provides details of the major variances between the revised budget estimate and the outturn and gives explanations for these variances.
- 1.7 **Appendix A** shows a summary of the Capital Programme expenditure realised in the year against the Revised Estimate for each Department and project, and projects that have not completed by end of the financial year where approval is sought to re-profiled or slip resources into 2016/17 and future years.

2.0 CAPITAL OUTTURN 2015/2016

2.1 Approved Capital Budget and Outturn

- 2.2 The total Capital Budget approved by **Council on 25 February 2015** with subsequent movements during the financial year 2015/16 and the final expenditure at outturn are shown in the table overleaf:

Capital Budget 2015/16	£m	£m
Original approved budget		25.690
Value of schemes re-profiled from 2014/15 programme	16.546	
Amendments to budget in year	8.164	24.710
		50.400
Revised programme for 2015/16		
Value of schemes re-profiled to 2016/17		(17.015)
Final Capital Programme 2015/16		33.385
Capital Outturn for 2015/16		33.398
Variance		(0.013)

- 2.3 Members are reminded, for completeness and not included in the figures above, that 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 2015/16 this grant totalled **£1.347million**.
- 2.4 Capital expenditure that was achieved from schemes carried out during the year totalled **£33.398million** against the final approved Programme funding (excluding the amounts for the VA schools and the re-profiled amounts) of **£33.385million**. There was an overall negative variance at the end of the year of **£0.013million** mainly from costs associated to disposals of assets.
- 2.5 These costs are offset against the capital receipts realised from the sale of identified surplus assets in the year and represent an intrinsic part of the asset management process.

3.0 CAPITAL PROGRAMME FUNDING

- 3.1 The Capital Programme is funded from a 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 arrive at the best possible financial position for the Council at the end of the financial year and one that will have minimal effect on the Council's future financial position.
- 3.3 This is achieved through maximising the use of government funded allocations, capital grants and external contributions. The Capital Programme also relies on and uses contributions from capital receipts, reserves 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 2015/16 the amount financed after accruing for all payments made or to be made for contract work, goods and services supplied by 31st March 2015 was **£33.398million**.
- 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:	£m	£m
Fixed assets	31.969	
Intangible assets	0.132	
Vehicle, Plant and Equipment	1.297	
Total		33.398
Financed by:		
Loan	6.768	
Capital Receipts/earmarked reserve	1.965	
External Grants and Contributions	12.078	
General Fund Revenue and Reserves	1.883	
Housing Revenue Account	3.085	
Major Repair Allowance	7.619	
Total		33.398

- 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 asset register. 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 2015/16 the Council financed schemes to a total value of **£1.965million** from total available capital receipts including those brought forward from previous year.
- 3.9 The Council has realised capital receipts from the sale of assets in 2015/16 of **£2.363million** in total, of which **£1.315million** can be used towards future capital investment or repayment of debt. The balance represents the payment of the share from the Right to Buys sales of **£1.048million** to Government.
- 3.9 The balance of general usable capital receipts at year end will be carried forward into 2016/2017 to ensure an amount for earmarked capital receipts that have been 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 2015/16 that originally had approved funding from Council's resources.
- 3.11 Accordingly, the borrowing requirement is delayed until it becomes absolutely necessary. This also ensures that a sound cash flow for the Council is maintained at all times.

4.0 CAPITAL PROJECTS RE-PROFILED 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.
- 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 **£17.015million**, as reported above in the table at paragraph 2.2 and the details of projects are shown in Appendix A.
- 4.5 The table below shows the different elements of funding approved by full Council in February 2015 for the 2015/16 financial year that was not spent in the year. These amounts were part of the three year rolling capital programme, from 2014/15 to 2016/17 compiled and presented to Council by Operational officers of the Authority.

2015/16 Capital schemes re-profiled into 2016/17	£m	£m
Total re-profiled		17.015
Financed by:		
Capital grants and contributions held in reserves	9.708	
HRA Reserve	2.758	
Capital receipts / Earmarked reserves	1.403	
Loan	1.673	

Capital grants and contributions receivable 2016/17	1.321	
General Fund Revenue / reserves	0.152	
Total		17.015

- 4.6 The value of the schemes re-profiled into 2016/17 will be financed in the next and future years from balances carried forward as usable reserves on the Balance Sheet. As at 31st March **£1.321m** of the total shown above was still to be received from external resources due to timing differences and **£14.021m** was held in general usable reserves.
- 4.7 The amount shown as loan of **£1.673m** represents previous years' approvals made by Council for Invest to Save projects such as:
- Street Lighting LED Invest to Save commitment
 - Prestwich Village
- 4.8 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.
- 4.9 The unused allocation from the Housing Revenue Account Reserve for council house repairs is transferred at year end to a reserve account and available to finance re-profiling of schemes into the 2016/17 capital expenditure.
- 4.9 The **Deputy Leader of the Council and Cabinet Member for Finance and Housing** will be requested to note and recommend for approval the carry forward of schemes and associated funding into 2016/17.
- 4.10 The Capital Programme approved by Council in February 2016 for the 2016/17 financial year will be updated with the slippage of funding as recommended and approved by Cabinet.

5.0 MONITORING ARRANGEMENTS

- 5.1 The Council's 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 Deputy Leader of the Council and Cabinet Member for Finance &

Housing, Cabinet and subsequently scrutinised by the Overview and Scrutiny Committee.

- 5.5 The Capital investment requirement for the Council is considered and approved over a three year rolling programme, with a longer term view for projects that go beyond this period of time.

6.0 RISK MANAGEMENT

- 6.1 The successful delivery of the capital programme and the financing or funding of expenditure realised in the year bears several risks that have been identified:
- 6.2 Projected outturns throughout the year are based on the best knowledge of the Project Managers at the end of each quarter. There is a tendency for scheme estimates to change and sometimes significantly from one report to the next, as planning and works on the projects progresses. 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 under spending 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 and 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 reduced in recent years in size and numbers. This has, to an extent, had a negative effect on the mix and size of the capital projects that have been approved by Council.
- 6.8 The Council has taken steps to mitigate this downside 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.
- 6.9 Capital expenditure reliant on capital receipts is only approved and takes 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 **£0.250million** 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, aims 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 Jane Lewis
Deputy Leader and Cabinet Member for Finance and Housing

Background documents:

Capital Cost Tab and Financing Working Papers, 2015/2016
Council Approved Capital Programme 2015/16, Report and Appendix1

For further information on the details of this report, please contact:

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