

REPORT FOR DECISION

MEETING: **CABINET
OVERVIEW & SCRUTINY COMMITTEE**

DATE: **27th June 2018
10th July 2018**

SUBJECT: **CAPITAL OUTTURN 2017/18**

REPORT FROM: **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 2017/18;
- Major variances between the Revised Estimate and the Outturn;
- The financing of the Capital Programme in 2017/18;
- Re-profile of budgets/allocations and slippage of funding into 2018/19;
- Details of the capital receipts realised during the year.

**OPTIONS &
RECOMMENDED OPTION**

Members are asked to:

- a) Note the final capital outturn for 2017/2018, and explanations for major variances (Appendix A and report)
- b) Note the financing of the Capital Programme in 2017/18 (Paragraph 3.5)
- c) Consider and recommend for approval the re-profiled/slippage requests and associated funding into 2018/2019 (Appendix B)
- d) Note the level of Capital Receipts realised in year and proposed use of the sites disposed of during

the year (Appendix C).

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 EXECUTIVE DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	27/6/18		

Overview & Scrutiny Committee		Committee	Council
4/7/18			

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 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 realised in the year against the Revised Estimate for each Department and project.

- **Appendix B** lists capital projects that have not completed by end of the financial year and are re-profiled or slipped into 2018/19 and future years, analysed by Department and 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 2017/2018

2.1 Approved Capital Budget and Outturn

- 2.2 The total Capital Budget approved by **Council on 22 February 2017** with subsequent movements during the financial year 2017/18 and the final expenditure at outturn are shown in the table below:

Capital Budget 2017/18	£m	£m
Original approved budget		20.281
Value of schemes re-profiled from 2016/17 programme	28.253	
Amendments to budget in year	7.335	35.588
		55.869
Revised programme for 2017/18		
Value of schemes re-profiled to 2018/19		(28.398)
Final Capital Programme 2017/18		27.471
Capital Outturn for 2017/18		27.471
Variance		0.000

- 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 2017/18 this grant totalled **£1.333million**.
- 2.4 Capital expenditure that was achieved from schemes carried out during the year totalled **£27.471million** against the final approved Programme funding (excluding the amounts for the VA schools and the re-profiled amounts) of **£27.471million**. There was an overall positive variance at the end of the year of less than **£0.001million** mainly from allocations for costs associated to retentions and defects to completed projects not charged to the programme.

- 2.5 These costs will not affect the financing of the programme or resources available due to the minimal value involved.

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 2017/18 the amount financed after accruing for all payments made or to be made for contract work, goods and services supplied by 31st March 2018 was **£27.471million**.
- 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	26.980	
Intangible assets	0.466	
Vehicle, Plant and Equipment	25	
Total		27.471
Financed by:		
Loan (HRA)	5.133	
Capital Receipts	3.035	
Earmarked Reserve	0.649	
External Grants and Contributions	10.766	
General Fund Revenue and Reserves	0.498	
Housing Revenue Account	0.445	
Major Repair Allowance	6.945	
Total		27.471

- 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 2017/18 the Council financed schemes to a total value of **£3.035million** 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 2017/18 of **£5.402million** in total, of which **£3.871million** 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 **£1.532million** to Government.
- 3.10 The balance of general usable capital receipts at year end will be carried forward into 2018/2019 to ensure an amount for earmarked capital receipts that have been approved and required for committed and specific projects.
- 3.11 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 2017/18 and that originally had approved funding from Council's resources.
- 3.12 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 necessarily 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 towards 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 **£28.398million**, 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 2017 for the 2017/18 financial year that was not spent in the year. These amounts were part of the three year rolling capital programme, from 2016/17 to 2018/19 compiled and presented to Council by Operational services of the Authority.

2017/18 Capital schemes re-profiled into 2018/19	£m	£m
Total re-profiled		28.398
Financed by:		
Capital grants and contributions held in reserves	12.237	
MRA Reserve	905	
Capital receipts / Earmarked reserves	2.285	
Loan	8.675	
Capital grants and contributions receivable 2018/19	4.256	
General Fund Revenue / reserves	0.040	
Total		28.398

- 4.6 The value of the schemes re-profiled into 2018/19 will be financed in the next and future years from balances carried forward as usable reserves on the Balance Sheet. As at 31st March **£3.726m** of the total shown above was not received from external resources / partners due to own cash profiling and **£0.530m** was held in general usable reserves.
- 4.7 A small amount of the grants and contributions carried forward, of **£0.372m**, was conditionally received to schemes being completed by a certain date or scope. The Council will ensure that all conditions to finance the agreed capital projects are complied with.
- 4.8 The amount shown as loan of **£8.675m** represents previous years' together with new approvals made by the Council for Invest to Save projects and affordable housing schemes that are long term and will require several years to complete, listed as:
- Housing care schemes and empty properties
 - Street Lighting LED Invest to Save commitment
 - Prestwich Village remodelling
 - Highways maintenance and improvement schemes (2017 to 2020)
- 4.9 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.

- 4.10 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 2018/19 capital expenditure.
- 4.11 The **Cabinet Member for Finance and Housing** will be requested to note and recommend for approval the carry forward of schemes and associated funding into 2018/19.
- 4.12 The Capital Programme approved by Council in February 2018 for the 2018/19 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.

Background documents:

Capital Cost Tab and Financing Working Papers, 2017/2018
Council Approved Capital Programme 2017/18, Report and Appendix1

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

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