Report to the Finance, Performance and Resources Select Committee

Title:	Capital
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Report signed off by Cabinet Member:	Peter Hardy, Finance & Resources
Electoral divisions affected:	All

Purpose of Agenda Item

At the request of the Chairman of this Committee, this is a report to provide the Committee with a Capital update.

Background

Capital expenditure is typically money that is spent on the acquisition, creation or enhancement of assets which will last longer than one year such as:

- buildings – schools, houses, libraries and museums
- land – for development, parks, playing fields, amongst others
- vehicles, plant, furniture and equipment
- infrastructure – roads, bridges, street lighting, ICT

It is normally clear when expenditure should be classed as capital; however there are some 'grey' areas, for example:

- Replacement of single glazed windows would be classified as ‘maintenance’ within revenue expenditure; Upgrade of windows (e.g. by installing double-glazing) would be classified as an improvement or enhancement and included as capital expenditure.
- A general survey to assess the condition of bridges would be classified as revenue expenditure; A specific survey of a bridge prior to major improvement work being undertaken on that bridge would be included within capital expenditure as part of the overall costs of the improvement work.
- A project manager can be charged to capital, where that person is directly overseeing the delivery of a capital project, and the % of time spent overseeing the project can be easily identified.

The Council’s accounting requirements in relation to capital expenditure are more complex than a commercial company. The Council has to separately finance expenditure on its assets.

There are a number of mechanisms through which the Council can do this. These include specific government grants, developer contributions, capital receipts, borrowing and making contributions from revenue including through the use of reserves.

The Capital Programme is set in line with the Prudential Code for Capital Finance approved by the Chartered Institute of Public Finance and Accountancy (CIPFA). This code requires local authorities to consider the affordability and long-term consequences of borrowing and other revenue consequences before they take any decisions on capital spending.

Report

Capital Investment Strategy

The current Capital Investment Strategy (Appendix A) was approved by Cabinet in July 2011 and is now due to be revised in line with the Strategic Plan and recent funding settlement announcements. Some considerations that will need to be reflected are:

- Capital grant settlement announcements for 2013 onwards, which are showing a trend of reducing values.
- New Home bonus, which is currently being used to fund the Council’s contribution to the superfast broadband rollout. However, under a recent consultation issued by government all, or part, of this may transfer to the Local Enterprise Partnership (LEP). In which case the revised Strategy will need to pick up how to influence the decisions of the LEP.
- Implementation of the Energy from Waste project and how to fund this.
- The willingness to engage in prudential borrowing in a climate of low interest rates
- The willingness to invest in regeneration and income generating assets, dependent upon the strength of the business case.
- Alignment to the Asset Management Strategy that is currently being developed.

- Changes in developer contributions under the Community Infrastructure Levy (CIL), rather than S106.
- Community Asset Transfers
- Transfer of assets to Academy schools, or Free Schools

Capital Programme

The four year capital programme has been developed following an assessment and prioritisation of aspirations against key Council priorities. This has allowed the Council to put significant investment into existing infrastructure including Property and Highways. Furthermore, investment has also been allocated to enable the redesign of Day Care Services, for providing additional school places, for broadband expansion, for infrastructure development and for the Energy from Waste (EfW) plant. A summary of the current Capital Programme as agreed by the Council in February 2013 is shown below.

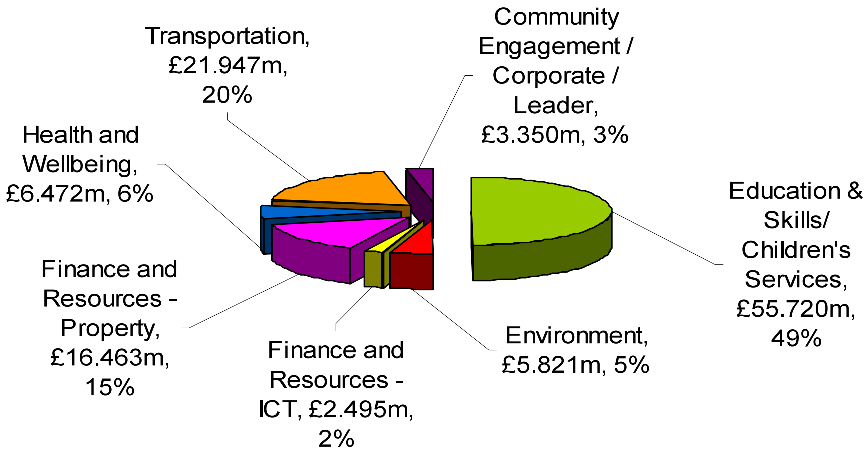
2013-14 to 2016-17 Capital Programme (£000)

	2013-14 £k	2014-15 £k	2015-16 £k	2016-17 £k	Total £k
Expenditure	112,268	56,131	44,774	217,399	**430,572**
Direct Funding	(37,369)	(7,762)	(4,749)	(4,089)	**(53,969)**
Corporate Funding	(79,847)	(45,342)	(35,756)	(215,838)	**(376,783)**
Funding (surplus) / deficit	**(4,948)**	**3,027**	**4,269**	**(2,528)**	**(180)**

The large increase in 2016-17 is due to the need to fund the Energy from Waste Plant

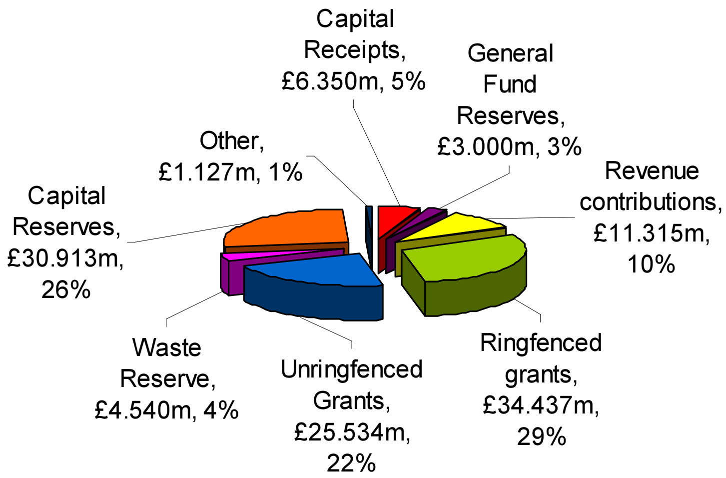
This shows gross capital expenditure of £430.6m over the next 4 years, with £112.3m planned for 2013-14. The chart below shows how the 2013-14 capital budget is split over the Council's portfolios.

2013-14 Capital Programme (£000 and %)



The chart below shows how the 2013-14 capital programme is financed.

Financing the 2013/14 Capital programme (£000 and %)



The detailed Capital Programme as approved by Council in February 2013 is included at Appendix B.

Slippage

Slippage takes place primarily where a delay occurs to a capital project resulting in planned capital expenditure taking place in a later financial year than originally budgeted. The main reasons for slippage are:

- Inadequate or over-optimistic project planning;
- Over-prudent budgeting
- Unforeseen / unforeseeable delays due to site conditions, planning delays, Judicial Reviews etc.

Slippage is arguably the single biggest challenge in effectively managing the capital programme faced by the Council. The Business Investment Group is considering how it can better challenge the original profiling of capital projects, to try to address, or at least minimise the first two bullet points. However, the types of issues listed in the third bullet point are always likely to be difficult to predict, but equally difficult to avoid.

The table overleaf shows the net under / overspends against re-profiled budgets for the last 4 years, which have formed the basis of carried forward slippage within the capital programme.

2009-10 to 2012-13 Capital Outturn and Slippage (£000)

		2012/13	2011/12	2010/11	2009/10
		£k	£k	£k	£k
Expenditure	Budget	90,482	64,744	66,602	76,622
	Actual	78,570	50,279	61,832	55,189
	Variance	**-11,912**	**-14,466**	**-4,718**	**-21,433**
Scheme specific funding	Budget	-44,964	-29,488	-46,321	-56,225
	Actual	-39,269	-20,225	-40,210	-37,152
	Variance	**5,695**	**9,263**	**6,111**	**19,073**
Net under / overspend		**-6,217**	**-5,203**	**1,393**	**-2,360**

Slippage	Expenditure	-15,920	-16,443	-10,885	-28,275
	Funding	6,249	10,388	8,605	23,244
	Net	**-9,671**	**-6,055**	**-2,280**	**-5,031**
Overspend / under-achieved income		7,107	13,254	7,692	6,078
Underspend / over-achieved income		-3,653	-12,402	-4,019	-3,407
	Net	**3,454**	**852**	**3,673**	**2,671**
Net under / overspend		**-6,217**	**-5,203**	**1,393**	**-2,360**

The 2012-13 outturn position showed an underspend variance of £6,217k, which is made up of £11,912k underspend of expenditure and £5,695k under achieved income. A detailed carry-forward report was considered by the Business Investment Group (BIG) on 11 June 2013. BIG has provisionally recommended that the net amount of slippage to be transferred into 2013/14 should be £9,671k, subject to review by Internal Audit.

Capital Investment Governance Structures and Processes

All capital investment must be supported by a business case and be submitted and approved in accordance with the Medium Term Plan (MTP) and Capital Investment Strategy. Each year the Council undertakes a medium term planning process to set the detailed annual budget for the next financial year; and the indicative budgets for the following 3 or 4 years. The February meeting of the County Council approves the MTP, the annual budget, capital programme and the Council Tax for the next financial year.

The process of developing the MTP starts in late spring/early summer each year and is in continuous development until the approved financial plan is published in March of the following year. The MTP process is essentially Member led through Portfolio teams, with key Officers and Members supporting the Portfolio Cabinet Members in developing their Portfolio priorities and spending plans. Portfolio Cabinet Members and Service Directors are responsible for planning their capital and revenue budgets on an activity basis for the next three or four years. They should ensure their budget plans reflect the Council's key objectives, priorities and policy direction, as set out in the Strategic Plan and the Portfolio plans. Bids for capital funds should cover the whole life cost of the scheme and be made using the appropriate business case template. Service Directors should ensure that the revenue implications of capital bids are included in revenue plans.

The Service Director (Finance and Commercial Services) is responsible for consolidating the overall plans for consideration by the Business Investment Group (BIG), Corporate Management Team (CoMT), Cabinet, Budget Scrutiny Panel and the County Council. This includes making appropriate recommendations on the capital programme, its robustness and risk associated with it.

Bids for capital funds outside of the MTP process (including where the project is 100% externally funded) are made directly to the Business Investment Group ('BIG') for recommendation to the Cabinet Member for Finance and Resources, or Cabinet where appropriate

Service Directors have delegated authority to manage their approved budget allocation within the agreed capital programme. Any scheme or allocation which is either forecast to, or actually does overspend by more than 10% of the agreed allocation must be reported back to Cabinet setting out the reasons why and remedial action being taken to recover the overspend. All adjustments to the capital programme outside of the MTP (including new schemes, re-profiling or slippage) must be submitted to the Business Investment Group ('BIG') for recommendation to Cabinet.

Further information is detailed in Financial Instruction 2: Capital; Financial Instruction 11: MTP and Financial Instruction 13: Budget monitoring.

Next steps

As part of our commitment to continuous improvement, the Council is looking to improve outcomes within the capital programme by:

- A review of the Full Business Case template, in conjunction with Commercial Services, to include further analysis of options appraisal, budget planning and risk
- Enhanced capital monitoring through CoMT and Cabinet to provide further challenge of project timelines and compliance with forecasting.
- Better identification of separating our slippage from real over or under spends.
- Specific reporting on s106 / CIL and capital receipts to BIG
- Review of corporate funding to expand information provided in support of the MTP
- No re-profiling is planned to take place during 2013/14 to highlight existing issues and encourage improvement in budget planning and forecasting.
- Risk based review of existing projects in MTP to update budget profiles in advance of the 2014/15 MTP

- Develop a prioritised fall-back or contingency list of business cases that could be progressed, should funding become available
- Exploring how the Council can take opportunities to invest in assets to generate revenue income streams. This might include the creation of a reserve for such purposes.
- Reviewing the Capital Strategy including the Terms of Reference for the Business Investment Group.