

CABINET

13 JUNE 2012

THE OVERVIEW & SCRUTINY COMMITTEE

18 JUNE 2012

CAPITAL EXPENDITURE OUTTURN 2011/12

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

[CAB2212: Capital Strategy & Programme 2011/12 – 2014/15, 12 October 2011](#)

[CAB2283: Capital Programme 2011/12 to 2014/15, 18 January 2012](#)

[CAB2297: Budget & Council Tax 2011/12, 8 February 2012](#)

CAB2284: Treasury Management Strategy 2012/13 and 2011/12 Revision

EXECUTIVE SUMMARY:

Total capital expenditure for the year 2011/12 was £10.695m, which was £3.238m lower than the Revised Budget of £13.933m. The variance was caused by unspent budget of £6.156m, partly offset by unbudgeted expenditure of £2.918m. The most significant element of unbudgeted expenditure is a consequence of the accounting treatment of embedded finance leases within the Environmental Services contract. This is explained more fully in the report.

Of the £6.156m underspend, £5.628m is being requested for budget carry forward to 2012/13; of which £0.665m was committed at the year end.

The financing of capital expenditure is shown at Appendix B; unfinanced capital expenditure in the year amounted to £1.318m compared with a budget of £4.586m, due to slippage in particular projects.

The closing balance on the Usable Capital Receipts Reserve was £2.797m at 31st

March 2012 which is £0.713m higher than budgeted; £0.284m of this is required to finance the carry forward requests leaving £0.429m more capital receipts than budgeted, available to fund future capital requirements comprising; £0.153m housing and £0.276m non-housing. The effect on other Useable Reserves is explained in the General Fund Revenue Outturn Report elsewhere on this agenda.

RECOMMENDATIONS:

That the Cabinet:

1. notes the capital expenditure and financing for 2011/12 and the implications on the future capital programme, and
2. That it be recommended to Council:

THAT THE CARRY FORWARD OF CAPITAL BUDGET TOTALLING £5.628M FROM 2011/12 (AS DETAILED IN APPENDIX A OF THE REPORT) BE APPROVED, IN ACCORDANCE WITH FINANCIAL PROCEDURE RULE 7.9.

That The Overview & Scrutiny Committee:

1. Considers whether there are any matters of significance that it wants to draw to the attention of Cabinet, a portfolio holder or the Council.

CABINET13 JUNE 2012THE OVERVIEW & SCRUTINY COMMITTEE18 JUNE 2012CAPITAL EXPENDITURE OUTTURN 2011/12REPORT OF HEAD OF FINANCE1 Introduction

- 1.1 This report provides an overview of the actual (outturn) capital expenditure for the financial year 2011/12 and the associated financing, compared with the Revised Capital Estimate.
- 1.2 The Treasury Management Strategy approved by the Council in February (CAB2284) includes Prudential Indicators for 2011/12 reflecting the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Government) and the Treasury Management Prudential Indicators. The Treasury Management Stewardship Report on the outturn Prudential Indicators for 2011/12, including those relating to capital expenditure, will be reported to the Audit Committee in September.

2 The Council's Capital Expenditure and Financing 2011/12

- 2.1 The Original capital expenditure budget for the year was set in February 2011 at £13.048m (CAB2112). The Programme was revised in the year to £13.933m (CAB2297), and the actual capital expenditure in the year amounted to £10.695m.
- 2.2 The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

TABLE 1	2011/12	Restated
	£000	2010/11
	£000	£000
<u>Capital Expenditure</u>		
Operational Assets	8,466	7,569
Non-operational Assets	1,187	471
Intangible Assets	336	256
Revenue expenditure funded from capital under statute	706	1,579
	10,695	9,875

TABLE 1	2011/12	Restated 2010/11
	£000	£000
<u>Sources of finance</u>		
Capital Receipts	(1,055)	(1,041)
Government Grants and other contributions	(1,047)	(1,227)
HRA Major Repairs Reserve	(3,403)	(3,497)
HRA Revenue Provision	(532)	(672)
GF Revenue Provision	(770)	(1,847)
	(6,807)	(8,284)
Joint Environmental Services Contract – embedded Lease	(2,570)	
Capital Financing Requirement Movement in Year*	(1,318)	(1,591)
	10,695	9,875

* excluding HRA financing settlement

- 2.3 The sources of finance available for capital projects are; capital receipts; Major Investment Reserve; grants; earmarked reserves; revenue contributions and Capital Finance Requirement / borrowing. Under the provisions of the Prudential Code, the Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.
- 2.4 As planned at the Revised Budget stage, some of the expenditure was unfunded and created a Capital Financing Requirement amounting to £1.318m. This was in relation to the Guildhall refurbishment works, Hyde capital works, and Barfield Close capital works.
- 2.5 More detail on the financing of capital expenditure in 2011/12, together with the proposed financing of budgets requested to be carried forward is provided at Appendix B.
- 3 Capital Expenditure
- 3.1 Appendix A provides a list of capital expenditure by project for the year compared with the Revised Estimate, plus requests for budget to be carried forward. The highest spending items in 2011/12 are listed below:

TABLE 2	2011/12
CAPITAL EXPENDITURE OUTTURN	£'000
Major Repairs (HRA)	4,545
Joint Environmental Services contract	2,570
Hyde	1,187
Disabled Facility Grants (DFGs)	457
Meadowside	305
River Park Leisure Centre	241
Microsoft Software	195
CCTV	166

TABLE 2	2011/12
CAPITAL EXPENDITURE OUTTURN	£'000
Other projects	1,029
Total	10,695

3.2 The outturn capital expenditure compares to the Revised Capital Estimate for 2011/12 as follows:

TABLE 3	2011/12	2011/12
Comparison to Budget	£000	£000
<u>Revised Capital Estimate</u>		13,933
<i>Plus:</i>		
Unbudgeted expenditure		2,918
<i>Less:</i>		
Unspent Budget to be carried forward - Committed at 31 st March 2011	-665	
Unspent Budget requested to be carried forward - Not committed at 31 st March 2011	-4,963	
Total Budget requested to be carried forward to 2011/12		-5,628
Underspends not to be carried forward		-528
Actual Capital Expenditure in 2011/12 (see Appendix A)		10,695

3.3 Unbudgeted expenditure is itemised in Appendix A, and mostly explained by the following items:

- a) Joint Environmental Services Contract: in relation to this contract the accounting standards require the Council to show its relevant share of the vehicles costs on its Balance Sheet, despite the payments being made monthly over the term of the contract. This is known as an "embedded finance lease" and amounts to £2.570m capital addition to the Balance Sheet in 2011/12.
- b) Meadowside: during the year works were completed externally and a Developer's deposit released of £0.305m.
- c) A small overspend of £0.039m occurred on the now complete Guildhall renovation project. This overspend was on minor additional works necessary to complete the project and represents c1% of the total project budget. The additional expenditure has been financed an increased CFR, thus increasing the overall borrowing costs of the project.

- 3.4 Total Budget Carry Forward Requests amount to £5.628m of which £0.665m is committed. Details are provided in Appendix A.
- 3.5 A contingency within the 2011/12 River Park Leisure Centre works project can now be released, releasing £0.237m of Capital Receipts Funding. This funding is now available for prioritising against required expenditure that is currently unfunded, most notably the Asset Management Plan and future RPLC works.
- 4 Usable Capital Receipts Reserve
- 4.1 The movement on the Usable Capital Receipts Reserve in 2011/12 compared with the Revised Budget assumptions is shown at Appendix C. The closing balance at 31st March 2012 is £2.797m compared with the Revised Budget of £2.084m; a favourable variance of £0.713m. The financing of proposed carry forwards from this reserve would be £0.284m, leaving £0.429m more capital receipts than budgeted, available to fund future capital requirements comprising; £0.153m housing and £0.276m non-housing. The effect on other Useable Reserves is explained in the General Fund Revenue Outturn Report elsewhere on this agenda.

OTHER CONSIDERATIONS:

5 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 5.1 The preparation of the capital budget for 2011/12 was aligned to the Sustainable Community Strategy and Capital Strategy to support the achievement of the corporate business plan. The main corporate priority is identified for each line of capital expenditure in the programme. Capital Expenditure in 2011/12 was identified against the corporate priorities as follows:

TABLE 4	Revised Estimate	Actual
Corporate Priority	2011/12	2011/12
	£000	£000
Active Communities	7,786	6,039
Prosperous Economy	3	3
High Quality Environment	493	2,854
Efficient & Effective	5,651	1,799
Total	13,933	10,695

For more detail see Appendix A.

6 RESOURCE IMPLICATIONS:

- 6.1 The revenue consequences of the outturn capital expenditure are reflected in the Revenue outturn report, elsewhere on this agenda (CAB2343). Lower

than budgeted capital expenditure has resulted in higher cash balances, which is beneficial to interest income, albeit at modest interest rates.

6.2 All other resource implications are explained in the report.

7 RISK MANAGEMENT ISSUES

7.1 The main risk in relation to actual capital expenditure is to ensure that spending does not occur in advance of funding being available. This particularly applies where spend is to be funded by forecast capital receipts.

7.2 The level of earmarked reserves is still below that required to support all of the capital expenditure requirements identified (particularly some major projects within the AMP, such as RPLC). However, over the past couple of years the annual budget setting process has gained approval for a number of baseline revenue contributions to earmarked reserves that support the capital programme and these are shown below:

<u>Revenue Contributions to Earmarked Reserves</u>	Revenue Contributions		
	2012/13 £000	2013/14 £000	2014/15 £000
Supported Earmarked Reserve:			
Property Reserve (Asset Management Plans)	300	300	300
Car Parks Property Maintenance	180	180	180
Disabled Facility Grants	100	122	122
ICT Strategy	60	60	60
TOTAL REVENUE CONTRIBUTIONS	640	662	662

BACKGROUND DOCUMENTS:

Operational and financial records held in Finance and other Divisions.

[Local Government Act 2003](#)

[Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003 \(SI No.3146\)](#)

APPENDICES:

Appendix A: Capital Expenditure Outturn 2011/12 compared with Revised Estimate – and Budget Carry Forward Requests

Appendix B: Financing of Capital Expenditure 2011/12

Appendix C: Usable Capital Receipts Reserve

CAPITAL EXPENDITURE OUTTURN 2011/12

	Funding *	Revised	Actual	Lower /	Carry	of which	Additional Information
		Capital Estimate	Expenditure	(Higher) than Budget	Forward Requested	Committed @ 31 March 2012	
		£000	£000	£000	£000	£000	
General Fund							
ACTIVE COMMUNITIES							
Affordable Housing / Regeneration	CR - H	211	0	211	211		Ringfenced funding to be carried forward to 2012/13
Affordable Hsg funded by Developers' contr's	EF	942	50	892	791		Ringfenced funding to be carried forward to 2012/13
Capital Grants	MIR	99	24	75	75	75	Awarded grants not yet claimed / completed
CCTV	EF	167	166	1			
Disabled Facility Grants (Mandatory)	EF/MIR/RCC	604	457	147	147	147	This relates to grants that have been approved but works not yet undertaken
Home Improvement Grants (Discretionary)	MIR	12	3	9			
Knowle Community Building	MIR	0	(2)	2			
Meadowside	EF	0	305	(305)			Works completed and deposit of developer contributions released
North Winchester Youth & Community Action	MIR	300	0	300	300		Provision for possible future development of community centre
River Park Leisure Centre - Essential Repairs	CR	498	241	257	20		Contingency budget not required, just a small budget for minor works completing soon
Whiteley Community Facility	ER (LABGI)	50	52	(2)			
		2,883	1,297	1,586	1,544	222	
PROSPEROUS ECONOMY							
Village Community Shop Grants	ER (LABGI)	3	3				
		3	3				
HIGH QUALITY ENVIRONMENT							
Car Parks	ER	57	30	27	48		Slippage of Wickham Square enhancements, utilising Tower Street underspend shown below
Hockley Viaduct	CR/MIR/EF	75	50	25	25		Slippage of pre-works stage budget. Total overall budget remains (per CAB2311).
Magdalen Hill Cemetery -Extension	MIR (Town)	30	0	30	30		Project has commenced with consultation of interested groups. Planning application to be submitted June 2012 for implementation September 2012.
Joint Environmental Services Contract	RCC		2,570	(2,570)			City Council share of embedded finance lease relating to vehicles
Open Space & Recreation Facilities	EF	70	0	70			£25k spent in 2011/12 (ref. CAB2118) reclassified as revenue expenditure
Street Care Equipment	MIR	45	33	12			Procuring equipment from Serco reduced the amount required
Tower Street	CR	26	0	26			Distribution board replacement much lower than expected so reclassified to revenue
Winchester High Street / Square	MIR	30	12	18	18		Final element of enhancement work due 2012/13
The Square, Winchester	ER (LABGI)	150	150				
Winnall Moors Project	MIR	10	10				
		493	2,854	(2,361)	122	0	
EFFICIENT & EFFECTIVE							
Abbey House	ER	66	0	66	66		Project deferred to 2012/13
Abbey Mill	ER	104	92	12	12		Floor relaying / beams outstanding for 12/13 completion
Asset Management Plans	RCC	161	0	161	161		To be used against prioritised projects in the Asset Management Plan
Avalon House	CFR	696	0	696	696		Project deferred to 2012/13
City Offices	CR	100	0	100	100		Project deferred to 2012/13
Depot	CFR	1,402	85	1,317	1,317	90	Project slippage into 2012/13
Guildhall Community Facilities/Refurb	CFR	7	46	(39)			£9k of overspend funded by Guildhall revenue maintenance budget. Remainder - minor additional works necessary to complete the project.
Guildhall 'Secret Rooms'	CR	60	62	(2)			
Guildhall Toilets	CR	50	0	50	50		Currently reworking plans to keep within budget, project to complete in 12/13

	Funding *	Revised	Actual	Lower /	Carry	of which	Additional Information
		Capital	Expenditure	(Higher) than		Forward	
		Estimate		Budget	Requested	31 March	
		£000	£000	£000	£000	2012	
Hyde	CFR	1,481	1,187	294	294	267	Project Slippage into 2012/13 - due to complete in May 2012
ICT E-Governance	CR	15	0	15	15	15	GIS mapping update (web enabled) - Esri Fusion - ordered @ end of 2011/12
ICT Equipment	CR / ER	138	93	45	45		Citrix - further implementation deferred
ICT Waste Management	MIR	40	38	2			
Microsoft Software	MIR	195	195	()			
Old Chesil Rectory	CR	38	0	38	38		Project Slippage into 2012/13, preparatory works required additional time
Property Acquisition & Development	CFR	1,000	0	1,000	1,000		Unspent in 2011/12 therefore to be retained for 2012/13
Urgent Property Works	ER	48	0	48	48		Unspent contingency budget to be carried forward
West Wing / City Offices Heating Works	ER	50	0	50	50		Works due to commence soon for completion in 2012/13
		5,651	1,799	3,852	3,891	372	
TOTAL GENERAL FUND		9,030	5,953	3,077	5,558	594	
Housing Revenue Account							
ACTIVE COMMUNITIES							
Major repairs	EF/HRA/MRA	4,615	4,545	70			
Orchard Upgrade	HRA	44	24	20	20	20	Final module to go live in May 2012
Asset Management Solution	HRA	80	29	51	51	51	Project commenced and due for completion August 2012
Sewage Treatment Works	CR - H	165	143	22			Careful design of a new pump system resulted in this saving
TOTAL HOUSING REVENUE ACCOUNT		4,904	4,742	162	70	70	
TOTAL CAPITAL PROGRAMME		13,933	10,695	3,239	5,628	664	
* Key - Funding							
Capital Financing Requirement	CFR						
Capital Receipts	CR						
Capital Receipts - Housing	CR - H						
Earmarked Reserves	ER						
External Funding	EF						
Major Investment Reserve	MIR						
Revenue Contribution to Capital	RCC						
Rechargeable to the Town A/C	MIR (Town)						

CAPITAL PROGRAMME FINANCING 2011/12					
		REVISED ESTIMATE	ACTUAL	LOWER / (HIGHER) THAN BUDGET	CARRY FORWARD FINANCING
		£000	£000	£000	£000
General Fund					
EXTERNALLY FUNDED					
Government Grants					
Capital Grant (DFG)	CG	378	414	(36)	
Total Government grants		378	414	(36)	-
External contributions					
CCTV		-	2	(2)	
Developers' contributions	DC	1,109	214	894	791
Hockley Viaduct		26	23	3	3
HRA Major Repairs - Energy Saving Trust		-	76	(76)	
Meadowside		-	305	(305)	
Open Space Fund	OS	70	-	70	
RPLC		-	11	(11)	
Whiteley Community Facility		-	2	(2)	
Total External Contributions		1,205	634	571	794
TOTAL EXTERNALLY FUNDED		1,583	1,047	535	794
Earmarked Reserves					
Car Park Property	ER	57	30	27	48
IT Equipment	ER	60	60		
Property Fund	ER	413	92	320	321
Other	ER	40	-	40	
LABGI	LABGI	203	203		
Total Earmarked Reserves		772	386	387	369
Capital Receipts Excluding Housing	CR	893	328	565	284
Total Capital Receipts		893	328	565	284
Capital Financing Requirement	CFR	4,586	1,318	3,268	3,307
Major Investment Reserve	MIR	984	381	603	593
Revenue Contribution to Capital		-	2,570	(2,570)	
Total General Fund excluding Housing		8,818	6,030	2,788	5,347
Housing					
Government Grants					
Major Repairs Reserve	MRR	4,380	3,968	412	
Revenue Contribution to Capital	RCC	359	555	(196)	
Capital Receipts	CR - H	165	143	22	
Housing Revenue Account	HRA				70
Disposal of dwellings	CR - H	211	-	211	211
Total Housing Revenue Account		5,115	4,665	450	281
Total Financing of Capital Programme		13,933	10,695	3,239	5,628

USABLE CAPITAL RECEIPTS RESERVE			
	Revised Estimate	Actual	Variance favourable/ (adverse)
Non Housing	2011/12	2011/12	2011/12
	£000	£000	£000
USABLE CAPITAL RECEIPTS RESERVE (Non-Housing)			
Opening Balance b/fwd	1,754	1,754	0
Asset Sales (Other)	160	152	(8)
Financing of Capital Programme	(893)	(325)	568
Closing Balance c/fwd	1,021	1,581	560
Housing			
USABLE CAPITAL RECEIPTS RESERVE (Housing)			
Opening Balance b/fwd	1,197	1,197	(0)
Asset Sales (RTB)	1,000	636	(364)
Pooling	(750)	(474)	276
Financing of Capital Programme	(384)	(143)	241
Closing Balance c/fwd	1,063	1,216	153
Total Closing Balance c/fwd	2,084	2,797	713
Capital Financing Requirement (CFR) - in year	4,586	1,318	3,268
Capital Financing Requirement (CFR) - Cumulative	8,741	5,473	3,268