

Name of meeting:- Cabinet

Date:- 17th November 2015

Title of report: Capital Investment Plan 2015/16 – 2019/20
 Quarter 2 Capital Monitoring 2015/16

Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Is it in the Council's Forward Plan?	Yes
Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by Director	David Smith, Director of Resources 21 October 2015
Is it signed off by the Director of Resources?	Yes 21 October 2015
Is it signed off by the Assistant Director – Legal and Governance?	No legal implications
Cabinet member portfolio	Resources

Electoral [wards](#) affected and ward councillors consulted: All

Public or private: Public

1. Purpose of report

- 1.1 The Cabinet is responsible for implementing the Capital Investment Plan within the resources allocated. In compliance with current Financial Procedure Rules (FPRs) and the Prudential Code for Capital Finance, the Cabinet is presented with the Capital Monitoring Report for Quarter 2 (2015/16).
- 1.2 At the end of the second quarter of 2015/16 actual expenditure is £31.6m, representing 27.9% of budget.
- 1.3 Projected year-end expenditure stands at £98.1m against a current budget allocation of £113.5m. This variance of -£15.4m represents 13.5% of the total budget.

- 1.4 The majority of the reported variance relates to slippage rather than anticipated scheme underspends. However, it is proposed to undertake a review of 2015/16 capital schemes later in the year in order to identify any 'uncommitted' resources that could potentially be used to reduce overall corporate borrowing costs.

2. Key points

- 2.1 Current Financial Procedure Rules (FPRs) relating to 'Capital Investment Plan Preparation and Management' state the following;
- a) The Cabinet is responsible for implementing the Capital Investment Plan within the resources allocated. (FPR 3.8)
 - b) The Director of Resources will report to the Cabinet on the overall management of the Capital Investment Plan at least four times per year. The Cabinet will provide summary monitoring information to the Council at least twice a year. (FPR 3.16)
 - c) The Cabinet may delegate its authority under Financial Procedure Rules 3.10 and 3.11 to individual Cabinet members, to District Committees, to Directors or, in the case of the Housing Investment Plan, to the Board of Kirklees Neighbourhood Housing Limited. The Cabinet is required to determine arrangements for delegation, which may differ between service areas. These delegations should be agreed annually by the Cabinet. (FPR 3.12).

3. Implications for the Council

3.1 Capital Budget

- 3.1.1 The Capital Plan for 2015/16 (inclusive of rolled over funds from 2014/15) was revised by Council on 29th July 2015 and totalled £111.8m (excluding partner expenditure on Housing PFI). The following subsequent adjustments have been made, taking the total to £113.5m by the end of Quarter 2;

- (a) Revenue Contribution to Capital Outlay (RCCO) – (+£722k)
 - ChYPS - £169k for modular accommodation and associated costs at Reinwood Infants & Nursery, £49k for fan convectors at Upperthong Junior and Infants School, £33k window replacement at Honley Infants & Nursery and £11k towards roof replacement at Cowlersley Primary School
 - Highways - £232k for Headlands Depot. A revised Highways Capital Plan 2015/16 Report was approved at Cabinet on 20th October
 - Asset Rationalisation - £150k for George Street Depot refurbishment
 - Parks & Open Spaces - £53k for Greenhead Park
 - District Committees - £25k for various schemes

(b) Additional Funding – (+£966k)

- Housing Private – Use of £433k retained right to buy capital receipts to support a Care and Support Specialised Housing Fund (CaSSH) scheme to provide supported housing. Approval to use right to buy receipts was gained by Cabinet on 26th August 2014
- Environment & Strategic Waste – use of £228k grant held in balances to support in-cab equipment for refuse vehicles
- A revised Highways Capital Plan was approved at Cabinet on the 20th July 2015. Approval was given for an increase in the Environment Agency grant (£220k) for flood alleviation works
- KAL Self-funded - £85k general contribution for Spenborough fitness suite extension

3.2 Monitoring of Corporate Capital Expenditure 2015/16 - Overall Position

3.2.1 The Council's Capital Investment Plan is structured between strategic investment needs, risks & pressures and baseline programmes of work. Assistant Directors and Capital budget contacts have been asked to produce figures for expenditure to date and an estimate of the year end outturn. Appendix 1 contains details (analysed by individual strategic priority or baseline work programme) of total budget, actual spend to date, total projected spending and any subsequent variances.

3.2.2 An explanation of the major variances from the 2015/16 Capital Plan are summarised in Appendix 2.

3.2.3 At the end of the second quarter of 2015/16 actual expenditure stands at £31.6m, representing 27.9% of the budget. Projected year-end expenditure stands at £98.1m against a current budget allocation of £113.5m, representing 86.5% of the total budget. This variance of -£15.4m represents 13.5% of the total budget.

Table 1 - Summary of Monitoring Position

	Adjusted Budget	Actual to Date	Year End Projection	Variance
	£'000	£'000	£'000	£'000
Strategic Priorities	24,094	5,606	17,159	-6,935
Baseline	59,782	16,334	53,612	-6,170
One-Off Projects	640	438	569	-71
Risks & Pressures	2,500	0	2,500	0
TOTAL	87,016	22,378	73,840	-13,176
HRA	26,487	9,252	24,300	-2,187
OVERALL TOTAL	113,503	31,630	98,140	-15,363
		28%	86%	-14%

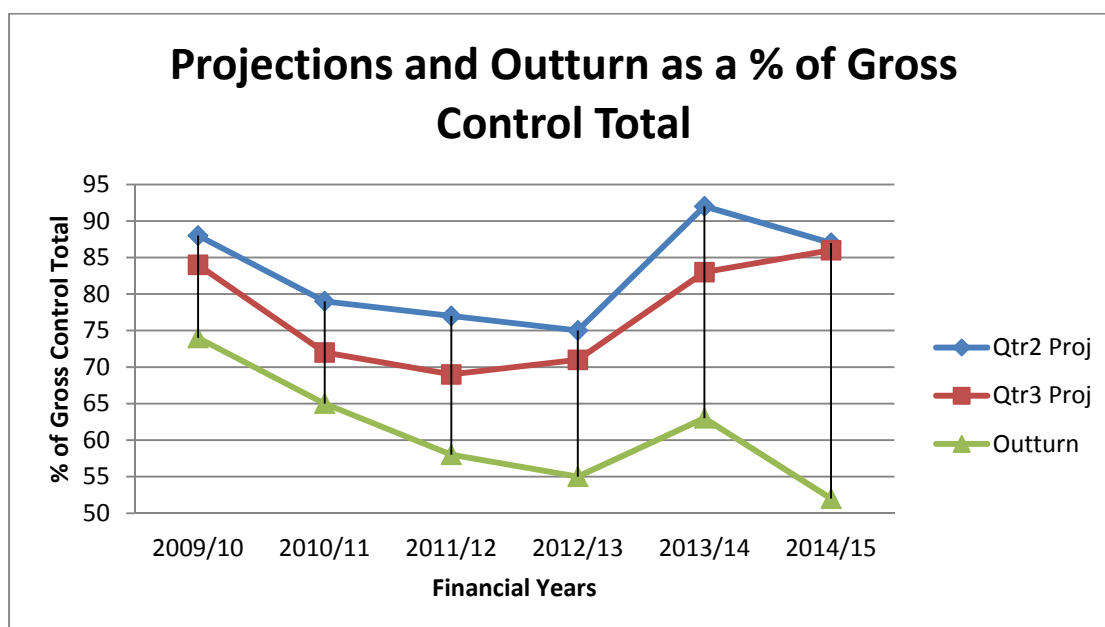
3.2.4 One source of funding for the Capital Plan is through asset disposal and the generation of capital receipts. As at the second quarter, £0.5m has been generated through completed sales against a the target £5m non-earmarked

capital receipts. After property auctions later in the year, it is now anticipated that £3.5m will be generated in total, with further planned sales slipping into following years.

- 3.2.5 Of the overall variance, £10.2m relates to schemes funded by corporate borrowing. The underspend will only have a marginal effect on the Treasury Management Budget for 2015/16 due to the timing of principal repayments on new borrowing and because interest rates are currently so low.
- 3.2.6 Currently, the Capital Plan assumes that all rollover is carried forward within the Plan. It is proposed to undertake a review of 2015/16 capital under-spends later in the year in order to identify any 'uncommitted' resources that could potentially be used to reduce overall corporate borrowing costs.
- 3.2.7 Based on the variance explanations highlighted in Appendix 2, the majority of large variances appear to be slippage rather than 'uncommitted' resources that could potentially be used to reduce overall corporate borrowing costs.
- 3.2.8 It should be noted that for every £10m of prudential borrowing removed from the Plan, the PI reduces by approx. 0.3% by 2020/21.

3.3 Historical Trend of Monitoring to Outturn

- 3.3.1 Experience of managing a capital programme of this size shows actual outturn positions are often lower than projections provided at Quarter 2. This is illustrated in the graph below, which shows projections and outturn as a % of gross capital budget. There are a number of unforeseen issues that can lead to slippage on capital schemes such as adverse weather conditions, changes in legislation, issues with planning permission, changes in external funding conditions, procurement issues etc.



- 3.3.2 The 2015/16 projection at Quarter 2 i.e. 86% of total capital budget is roughly the same as levels estimated at the same quarter in 2014/15. 2013/14 was the first year of the newly adopted approach in having a targeted and integrated Investment Plan e.g. resources prioritised to meet the strategic investment

needs of the Council and minimum baseline levels set to ensure the asset base and service delivery is maintained.

3.3.3 The above graph demonstrates that if the historic profile is maintained (accepting there are caveats about how the new format 5 Year Strategic Investment Plan may impact on trends) the outturn variance may be 20-30% higher than projections reported at Quarter 2. This implies the actual variance at year end could be 30-40% of the capital budget, i.e. a variance of £34m-£45m.

3.4 Retrospective reporting on Capital virements approved at Director Level

3.4.1 This section of the report collates all applications of the virement rule (FPR 3.14) from within the Corporate Capital Investment Plan in Quarter 2 of the financial year 2015/16.

3.4.2 There are no capital virements that require approval at this stage.

3.5 Prudential Indicators Monitoring Report

3.5.1 The new Prudential Code for Capital Finance in local authorities began on 1 April 2004 and introduced a greater freedom for the Council's capital expenditure. Part of the requirements of the Code is for reporting procedures to be implemented to monitor the progress and status of capital expenditure plans. This report is the first monitoring report for 2015/16. The monitoring information is shown in Appendix 3.

4. Consultees and their opinions

This report has been prepared by the Director of Resources after consultation with Capital Delivery Group, AD Strategic Investment Group, and Directors Group.

5. Next steps

Cabinet will be updated about the progress of the Capital Investment Plan when Quarter 3 figures are reported in March.

6. Officer recommendations and reasons

It is recommended that:

- i) The second quarter Capital Monitoring Report is noted.
- ii) A review of 2015/16 capital under-spends is undertaken in order to identify any 'uncommitted' resources that could potentially be used to reduce overall corporate borrowing costs.
- iii) The Prudential Indicators information be noted

7. Cabinet portfolio holder recommendation

Support the officer recommendations.

8. Contact officers and relevant papers

David Smith Director of Resources	01484 221124	(72300)
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Philip Deighton Strategic Council Finance Manager	01484 221000	(72734)
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Tim Mitchell Finance Manager	01484 221000	(73675)
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Safaira Majid Senior Finance Officer	01484 221000	(73634)
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9. Assistant Director responsible

Debbie Hogg- Assistant Director for Resources - Financial Management, Risk and Performance	01484 221000	(76018)
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ANALYSIS OF VARIANCES FROM CAPITAL PLAN 2015/16 – QUARTER 2

Overall Capital Plan	Revised Budget	Actual to Date	Total Expected Cost less Overprogramming	Variance	Variance
	£'000	£'000	£'000	£'000	%
Strategic Priorities	24,094	5,606	17,159	-6,935	-29%
Baseline	59,782	16,334	53,612	-6,170	-10%
Risks & Pressures	2,500	0	2,500	0	0%
One-Off Initiatives	640	438	569	-71	-11%
Housing Revenue Account	26,487	9,252	24,300	-2,187	-8%
Overall Total	113,503	31,630	98,140	-15,363	-14%

Strategic Priorities Capital Plan	Revised Budget	Actual to Date	Total Expected Cost	Variance	Variance
	£'000	£'000	£'000	£'000	%
WYTF - A644/A62 Cooper Bridge	300	34	300	0	0%
WYTF - A644/A62 Corridor Improvements	350	78	350	0	0%
WYTF - A653 Dew to Leeds Corridor incl Chidswell	80	13	80	0	0%
WYTF - A629 Hudds to Halifax Corridor	100	3	100	0	0%
Development of South Dewsbury Strategic Location	0	8	0	0	0%
Bringing Commercial Properties into use	552	331	552	0	0%
Pioneer House	250	-79	250	0	0%
Town & Village Centres	110	0	110	0	0%
Huddersfield Town Centre Action Plan	350	5	350	0	0%
European Grant Funding Opportunities	500	0	500	0	0%
New Pupil Places in Primary Schools	5,500	597	5,271	-229	-4%
Reprovision of Lydgate Special School	3,105	168	2,500	-605	-19%
New Huddersfield Sports Centre	4,644	3,198	4,700	56	1%
Huddersfield Sports Centre Connectivity	220	0	220	0	0%
Spensorough Pool	1,000	7	100	-900	-90%
Powerhouse	276	78	276	0	0%
KSDL - HD-One	2,250	0	250	-2,000	-89%
Kirklees College Loan	4,200	1,100	1,100	-3,100	-74%
Organisational Risks	307	65	150	-157	-51%
Strategic Priorities Total	24,094	5,606	17,159	-6,935	-29%

APPENDIX 1 (cont'd)

One-Off Initiatives Capital Plan	Revised Budget	Actual to Date	Total Expected Cost	Variance	Variance
	£'000	£'000	£'000	£'000	%
Almondbury Through School	640	438	569	-71	-11%
One-Off Initiatives Total	640	438	569	-71	-11%

Baseline Capital Plan	Revised Budget	Actual to Date	Total Expected Cost less Overprogramming	Variance	Variance
	£'000	£'000	£'000	£'000	%
Childrens					
Basic Need	2,766	508	2,766	0	0%
Capital Maintenance	5,111	3,136	5,111	0	0%
Devolved Formula Capital	1,722	0	1,100	-622	-36%
One-off Initiatives	3,325	-238	2,893	-432	-13%
Childrens Total	12,924	3,406	11,870	-1,054	-8%
Adults Total	1,167	34	131	-1,036	-89%
Place					
Housing (Private)	4,076	1,315	4,076	0	0%
Highways	17,680	6,532	17,680	0	0%
Economic Delivery	2,332	291	1,081	-1,251	-54%
Parks & Open Spaces	1,202	236	1,202	0	0%
Environment and Strategic Waste	328	188	328	0	0%
Bereavement Services	406	-16	406	0	0%
Transport Services	6,270	2,172	6,270	0	0%
Investment in Buildings	3,221	828	3,221	0	0%
Asset Utilisation/Rationalisation	2,773	378	2,773	0	0%
KAL KC-Funded	872	298	872	0	0%
School Catering	200	0	200	0	0%
Place Total	39,360	12,222	38,109	-1,251	-3%
Communities, Transformation & Change					
KAL Self-Funded	2,001	43	1,354	-647	-32%
Area Neighbourhood Teams	743	76	435	-308	-41%
Communities, Transformation & Change Total	2,744	119	1,789	-955	-35%
Resources					
Information Technology	1,713	553	1,713	0	0%
Resources Total	1,713	553	1,713	0	0%
Leeds City Region Revolving Fund	1,874	0	0	-1,874	-100%
Baseline Total	59,782	16,334	53,612	-6,170	10%

ANALYSIS OF MAJOR VARIANCES FROM CAPITAL PLAN 2015/16

These are summarised in column 5 of Appendix 1. The principal variations are described below:

Strategic Priorities (-£6.9m)

Kirklees College Loan (-£3.1m) – The College is not expected to fully utilise the short term loan facility this year.

HD-One (-£2m) – Delayed progress on KSDL's development plans mean that drawdown of loan funding will slip into future years.

Spensorough Pool (-£900k) – Only professional fees & survey work to be charged this year. The scheme is not due to start on site until mid 2017.

Reprovision of Lydgate Special School (-£605k) – the variance is due to slippage in the start on site date for construction.

Baseline Programmes (-£6.2m)***Directorate of Children and Young People (-£1.1m)***

Devolved Formula Capital (-£622k) – Devolved Formula Capital is a ring-fenced grant and effectively schools' money. The expenditure is dependent on schools agreeing the level of contributions and is therefore difficult to accurately forecast

Completed Schemes (-£310k) - Dependent on final accounts being settled / retentions being paid / outstanding contractual disputes being resolved hence it is difficult to accurately forecast expenditure.

Adults (-£1.0m)

Plans with partners as to how the ringfenced Better Care Fund social care capital allocation can best be used to deliver its objectives not yet fully developed.

Directorate of Place (-£1.2m)

Economic Delivery (-£1.2m) - A number of major carbon reduction schemes are progressing far more slowly than anticipated due to uncertainty created by recently announced changes to the level of central government support for such schemes. Major property based regeneration schemes are being reviewed in order to ensure that they align with the proposals that emerge from the Economic Resilience theme work as part of the development of the New Council model.

Directorate of Communities, Transformation & Change (-£1.0m)

KAL Self-funded (-£647k) – Underspend due to schemes currently at the development stage

District Committees (-£308k) – New schemes which have been approved are projected to not be fully spent by the end of the financial year.

Leeds City Region Revolving Fund (-£1.9m)

No spend has been incurred on this initiative, nor is any anticipated for the remainder of the year.

Housing Revenue Account (-£2.2m)

PV Programme (-£3m) – Progress on the PV programme has been slower than anticipated due to difficulties in getting approval for schemes from the Grid Operators. Permission has been refused for some estates, whilst in other instances approval has been given, but only after several months delay. Another cause of delay has been identifying suitable properties where the roof will not need renewing for at least 20 years.

APPENDIX 3

1. Prudential indicators for affordability (mandatory indicators highlighted)

Capital Expenditure and External Debt

The table below draws together the main elements of Capital Plan expenditure, highlighting borrowing and other financing arrangements. It contains the following prudential indicators:

- 1) Capital expenditure – sets out the latest actual spend and the estimated spend in the plan period, split between General Fund and HRA.
- 2) Capital Financing Requirement (CFR) – this is the Council’s underlying need to borrow to fund capital investment.
- 3) External debt – sets out the latest actual debt for the Council. The difference between external borrowing and the CFR in each year reflects the amount of internal balances that are being “borrowed” to finance capital indebtedness.

	2014/15	2015/16	
	Actual	Approved Indicator	Revised Estimate
	£000s	£000s	£000s
<u>Capital Expenditure</u>			
General Fund	60,534	87,016	73,840
General Fund - PFI	1,692	1,526	1,526
HRA	24,033	26,487	24,300
HRA - PFI	-76	151	151
Total	86,183	115,180	99,817
<u>Financed by -</u>			
Borrowing	5,056	43,325	32,468
PFI	1,616	1,677	1,677
Other Resources	79,511	70,178	65,672
Total	86,183	115,180	99,817
<u>CFR as at 31 March</u>			
General Fund excl PFI	422,263	440,064	429,193
General Fund PFI	60,834	58,029	58,047
HRA excl PFI	196,579	192,406	192,406
HRA PFI	60,918	58,910	58,910
Total	740,594	749,409	738,556
<u>External debt as at 31 March</u>			
Borrowing	443,715	474,622	463,731
Other LT Liabilities	126,285	121,330	121,350
Total	570,000	595,952	585,081

A further two Prudential Indicators control overall level of borrowing. These are the Authorised Limit and the Operational Boundary. The Authorised Limit represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short-term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003.

The Operational Boundary is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during this year.

	2015/16 £m
<u>Authorised limit for external debt</u>	
Borrowing	543.7
Other Long Term Liabilities	126.3
Total	670.0
 <u>Operational boundary for external debt</u>	
Borrowing	495.3
Other Long Term Liabilities	126.3
Total	621.6
 <u>Estimated maxima for external debt</u>	
Borrowing	463.7
Other Long Term Liabilities	126.3
Total	590.0

The Council is expected to comfortably remain within its Authorised Limit.

There is also a limit on HRA indebtedness set by the Department for Communities and Local Government under the recent HRA self-financing reform. The limit is set at £247.6 million for the HRA CFR excluding PFI liabilities. The estimated HRA CFR excluding PFI liabilities as at 31 March 2015 is £192.4 million which is well within the limit.

Estimates of ratio of financing costs to net revenue stream

This prudential indicator measures the impact of borrowing costs on the General Fund and the HRA. It expresses financing costs as a percentage of the “net revenue stream” (taxation and non-specific grant income for General Fund and gross income for HRA).

	2014/15 Actual	2015/16	
		Approved Indicator	Revised Estimate
General Fund	12.88%	13.76%	13.13%
General Fund (excl. PFI)	10.79%	11.74%	11.05%
HRA	34.31%	30.19%	30.02%
HRA (excl. PFI)	29.90%	27.75%	27.58%

The lower percentages for General Fund reflect lower financing costs mainly due to a slower anticipated rise in interest rates and capital slippage.

2. Prudential indicators for prudence

Net Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the authority should ensure that net external borrowing does not, except in the short term, exceed the total CFR. The Council comfortably complied with this requirement in 2014/15 and no difficulties are envisaged for current or future years.

3. **Prudential indicator for treasury management**

Treasury Management

The prudential indicator in respect of treasury management is that the local authority has adopted the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. The aim is to ensure that treasury management is led by a clear integrated forward treasury management strategy, and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios. The Council adopted the Code in February 2002.