

**Name of meeting:- Cabinet**

**Date:- 8th March 2016**

**Title of report:** Capital Investment Plan 2015/16 – 2019/20  
 Quarter 3 Capital Monitoring 2015/16

<b>Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?</b>	Yes
<b>Is it in the <a href="#">Council's Forward Plan</a>?</b>	Yes
<b>Is it eligible for "call in" by <a href="#">Scrutiny</a>?</b>	Yes
<b>Date signed off by Director</b>	David Smith, Director of Resources 22 January 2016
<b>Is it signed off by the Director of Resources?</b>	Yes - 22 January 2016
<b>Is it signed off by the Assistant Director – Legal and Governance?</b>	No legal implications
<b>Cabinet member <a href="#">portfolio</a></b>	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 3 (2015/16).
- 1.2 At the end of the third quarter of 2015/16 actual expenditure is £48.7m, representing 42.4% of budget.
- 1.3 Projected year-end expenditure stands at £83.4m against a current budget allocation of £114.9m. This variance of -£31.5m represents 27.4% of the total budget.

- 1.4 The majority of the reported variance relates to slippage rather than anticipated scheme underspends. However, a review of 2015/16 capital schemes is currently being undertaken in order to identify any 'uncommitted' resources that could potentially be used to reduce overall corporate borrowing costs. The outcome of this review will be presented to AD Strategic Investment Group on the 16<sup>th</sup> March 2016.

## **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 29<sup>th</sup> July 2015 and totalled £111.8m (excluding partner expenditure on Housing PFI). At Quarter 2, this had been adjusted to £113.5m. The following subsequent adjustments have been made, taking the total to £114.9m by the end of Quarter 3;

- (a) Revenue Contribution to Capital Outlay (RCCO) – (+£173k)
  - Asset Rationalisation - £80k for Beck Lane modular building
  - Investment in Buildings - £41k for George Street metal fence, £15k the Victoria Tower staircase and landing lighting, £12k for Oakwell Hall roof repair and £10k for Claremont kitchenette.
  - Parks and Open Spaces - £15k for the demolition of public conveniences at Wilton Park
- (b) Additional Funding – (+£1.2m)
  - Local Growth Funding for Kirklees Housing Sites - £1m West Yorkshire Combined Authority loan agreement for site preparation and access works to three large council owned housing sites in Ashbrow, Batley

East and Newsome. Approval given at Cabinet on the 20<sup>th</sup> October 2015.

- Housing Private – £205k for the demolition of properties on Wakefield Road, Moldgreen, to be funded from Capital Allowances.
- Parks and Open Spaces – £11k Section 106 monies received for St Pegs Play Area in Cleckheaton

### 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 third quarter of 2015/16 actual expenditure stands at £48.7m, representing 42.4% of the budget. Projected year-end expenditure is £83.4m against a current budget allocation of £114.9m, representing 72.6% of the total budget. The underspend of £31.5m represents 27.4% 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	25,094	7,395	17,159	-7,935
Baseline	60,172	25,465	43,292	-16,880
One-Off Projects	640	526	568	-72
Risks & Pressures	2,500	0	0	-2,500
<b>TOTAL</b>	<b>88,406</b>	<b>33,386</b>	<b>61,019</b>	<b>-27,387</b>
HRA	26,487	15,327	22,358	-4,129
<b>OVERALL TOTAL</b>	<b>114,893</b>	<b>48,713</b>	<b>83,377</b>	<b>-31,516</b>
		42%	73%	-27%

3.2.4 One source of funding for the Capital Plan is through asset disposal and the generation of capital receipts. As at the third quarter, £1.0m has been generated through completed sales against a the target £5m non-earmarked capital receipts. It is estimated that £2.5m will be generated in total, with a further £2m of potential sales currently being worked on falling into 2016/17.

3.2.5 Of the overall variance, £18.3m relates to schemes funded by corporate borrowing. The underspend will 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.

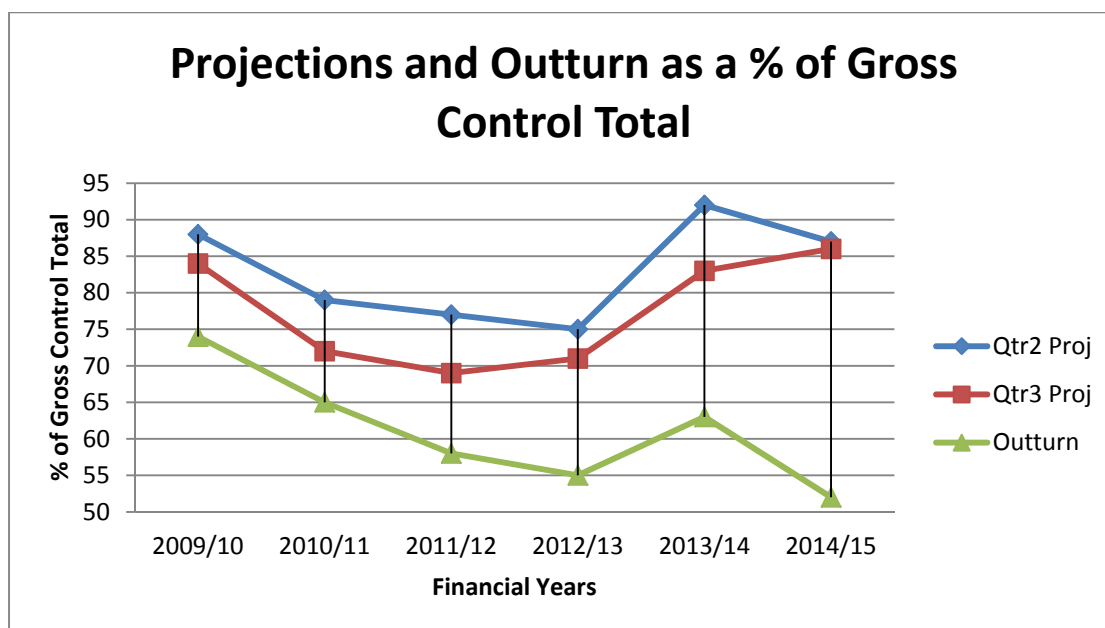
3.2.6 Currently, the Capital Plan assumes that all rollover is carried forward within the Plan. A review of 2015/16 capital schemes is currently being undertaken in order to identify any ‘uncommitted’ resources that could potentially be used to reduce overall corporate borrowing costs. The outcome of this review will be presented to AD Strategic Investment Group on the 16<sup>th</sup> March 2016.

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.

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 both Quarter 2 & Quarter 3. 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 3 i.e. 72.6% of total capital budget is roughly the same as levels estimated at the same quarter in 2012/13. 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 the outturn variance may be 15-20% higher than projections reported at Quarter 3. This implies the actual variance at year end could be approx. 45% of the capital budget, i.e. a variance of £52m.

### 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 3 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 third 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 for the current year at the end of the financial year.

## 6. **Officer recommendations and reasons**

It is recommended that:

- i) The third quarter Capital Monitoring Report is noted.
- ii) 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)
Philip Deighton Strategic Council Finance Manager	01484 221000	(72734)
Tim Mitchell Finance Manager	01484 221000	(73675)
Safaira Majid Senior Finance Officer	01484 221000	(73634)

**9. Assistant Director responsible**

Debbie Hogg-  
Assistant Director for Resources  
- Financial Management, Risk and  
Performance

01484 221000 (76018)

**ANALYSIS OF VARIANCES FROM CAPITAL PLAN 2015/16 – QUARTER 3**

Overall Capital Plan	Revised Budget	Actual to Date	Total Expected Cost less Overprogramming	Variance	Variance
	£'000	£'000	£'000	£'000	%
<b>Strategic Priorities</b>	<b>25,094</b>	<b>7,395</b>	<b>17,159</b>	<b>-7,935</b>	<b>-32%</b>
<b>Baseline</b>	<b>60,172</b>	<b>25,465</b>	<b>43,292</b>	<b>-16,880</b>	<b>-28%</b>
<b>Risks &amp; Pressures</b>	<b>2,500</b>	<b>0</b>	<b>0</b>	<b>-2,500</b>	<b>-100%</b>
<b>One-Off Initiatives</b>	<b>640</b>	<b>526</b>	<b>568</b>	<b>-72</b>	<b>-11%</b>
<b>Housing Revenue Account</b>	<b>26,487</b>	<b>15,327</b>	<b>22,358</b>	<b>-4,129</b>	<b>-16%</b>
<b>Overall Total</b>	<b>114,893</b>	<b>48,713</b>	<b>83,377</b>	<b>-31,516</b>	<b>-27%</b>

Strategic Priorities Capital Plan	Revised Budget	Actual to Date	Total Expected Cost	Variance	Variance
	£'000	£'000	£'000	£'000	%
WYTF - A644/A62 Cooper Bridge	300	49	300	0	0%
WYTF - A644/A62 Corridor Improvements	350	105	350	0	0%
WYTF - A653 Dew to Leeds Corridor incl Chidswell	80	20	80	0	0%
WYTF - A629 Hudds to Halifax Corridor	100	15	100	0	0%
Development of South Dewsbury Strategic Location	0	10	0	0	0%
Bringing Commercial Properties into use	552	472	552	0	0%
Pioneer House	250	-46	250	0	0%
Town & Village Centres	110	0	110	0	0%
Huddersfield Town Centre Action Plan	350	0	350	0	0%
European Grant Funding Opportunities	500	0	500	0	0%
New Pupil Places in Primary Schools	5,500	1,964	5,571	71	1%
Reprovision of Lydgate Special School	3,105	188	2,500	-605	-19%
New Huddersfield Sports Centre	4,644	3,320	4,200	-444	-10%
Huddersfield Sports Centre Connectivity	220	0	220	0	0%
Spensorough Pool	1,000	31	100	-900	-90%
Powerhouse	276	102	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%
Local Growth Fund	1,000	0	200	-800	-80%
<b>Strategic Priorities Total</b>	<b>25,094</b>	<b>7,395</b>	<b>17,159</b>	<b>-7,935</b>	<b>-32%</b>

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	526	568	-72	-11%
<b>One-Off Initiatives Total</b>	<b>640</b>	<b>526</b>	<b>568</b>	<b>-72</b>	<b>-11%</b>

Baseline Capital Plan	Revised Budget	Actual to Date	Total Expected Cost less Overprogramming	Variance	Variance
	£'000	£'000	£'000	£'000	%
<b>Childrens</b>					
Basic Need	2,766	896	1,678	-1,088	-39%
Capital Maintenance	5,111	4,211	4,866	-245	-5%
Devolved Formula Capital	1,722	0	1,290	-432	-25%
One-off Initiatives	3,325	-72	2,073	-1,252	-38%
<b>Childrens Total</b>	<b>12,924</b>	<b>5,035</b>	<b>9,907</b>	<b>-3,017</b>	<b>-23%</b>
<b>Adults Total</b>	<b>1,167</b>	<b>40</b>	<b>114</b>	<b>-1,053</b>	<b>-90%</b>
<b>Place</b>					
Housing (Private)	4,281	2,051	2,985	-1,296	-30%
Highways	17,681	10,128	15,072	-2,609	-15%
Economic Delivery	2,332	455	1,019	-1,313	-56%
Parks & Open Spaces	1,228	421	716	-512	-42%
Environment and Strategic Waste	328	238	328	0	0%
Bereavement Services	406	-7	212	-194	-48%
Transport Services	6,270	2,979	4,923	-1,347	-21%
Investment in Buildings	3,299	1,183	2,257	-1,042	-32%
Asset Utilisation/Rationalisation	2,853	630	1,988	-865	-30%
KAL KC-Funded	872	407	871	-1	0%
School Catering	200	42	163	-37	-19%
<b>Place Total</b>	<b>39,750</b>	<b>18,527</b>	<b>30,534</b>	<b>-9,216</b>	<b>-23%</b>
<b>Communities, Transformation &amp; Change</b>					
KAL Self-Funded	2,001	371	589	-1,412	-71%
Area Neighbourhood Teams	743	118	435	-308	-41%
<b>Communities, Transformation &amp; Change Total</b>	<b>2,744</b>	<b>489</b>	<b>1,024</b>	<b>-1,720</b>	<b>-63%</b>
<b>Resources</b>					
Information Technology	1,713	1,374	1,713	0	0%
<b>Resources Total</b>	<b>1,713</b>	<b>1,374</b>	<b>1,713</b>	<b>0</b>	<b>0%</b>
<b>Leeds City Region Revolving Fund</b>	<b>1,874</b>	<b>0</b>	<b>0</b>	<b>-1,874</b>	<b>-100%</b>
<b>Baseline Total</b>	<b>60,172</b>	<b>25,465</b>	<b>43,292</b>	<b>-16,880</b>	<b>-28%</b>



**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 (-£7.9m)**

*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.

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

*Local Growth Fund (-£800k)* – Work not to start on two sites until 2016/17.

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

**Baseline Programmes (-£16.9m)*****Directorate of Children and Young People (-£3m)***

*Basic Need (-£1m)* – The 2015/16 Basic Need programme was approved at Cabinet on 24th March 2015 Cabinet. Any underspend in funding will be required to rollover to 2016/17 to enable the rolling programme to be delivered and borrowing on DCYP Strategic Priorities to be reduced.

*Section 106 (-£647k)* – Some contributions not received from developers. Majority of funds remain unallocated either whilst discussions occur to identify schools to benefit or funds held pending emergence of new Investment Needs Strategy.

*Devolved Formula Capital (-£432k)* – 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.

***Adults (-£1.0m)***

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

***Directorate of Place (-£9.2m)***

*Highways (-£2.6m)* - Various schemes having fallen behind schedule across the programme areas, some as a result of the weather but others are in various stages of

the tender process, legal consultation or subject to other practical delays which are hoped to be addressed as soon as possible.

*Transport (-£1.3m)* – Mainly due to slippage in schemes.

*Economic Delivery (-£1.3m)* - A number of carbon reduction schemes are progressing 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.

*Housing Private (-£1.3m)* – Slippage of Section 106 monies (-£693k) which are to be rolled over and applied on the Large Housing Sites programme in 2017/18. Underspend of £403k on CASSH Project for supported housing at Golcar & Mirfield which is expected to spend a small amount this financial year with the balance required to be rolled into 2016-17 for continuation of scheme. £200k relating to demolition of properties at a Moldgreen scheme which has slipped to 2016-17

*Investment in Buildings (-£1m)* - A number of individual schemes have not yet commenced and are not currently committed. It is envisaged that several of these will be committed by the end of the financial year, otherwise bids for the schemes will be made as part of the rollover process.

### ***Directorate of Communities, Transformation & Change (-£1.7m)***

*KAL Self-funded (-£1.4m)* – Underspend due to schemes currently at the development stage

*District Committees (-£308k)* – New schemes which have been approved are not projected to 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 (-£4.1m)**

*PV Programme (-£3.2m)* - Reduction in Feed-in-Tariff rates applying from 15 January 2016 has resulted in project being put on hold pending a decision by members on whether to proceed.

*New Build Phase 1 (-£1m)* - Construction of new build properties is now expected in later years of the capital programme.

## 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	88,406	61,019
General Fund - PFI	1,692	1,526	1,526
HRA	24,033	26,487	22,358
HRA - PFI	-76	151	151
Total	86,183	116,570	85,054
<u>Financed by -</u>			
Borrowing	5,056	44,325	24,569
PFI	1,616	1,677	1,677
Other Resources	79,511	70,568	58,808
Total	86,183	116,570	85,054
<u>CFR as at 31 March</u>			
General Fund excl PFI	422,263	440,064	422,962
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	732,325
<u>External debt as at 31 March</u>			
Borrowing	443,715	474,622	455,206
Other LT Liabilities	126,285	121,330	121,350
Total	570,000	595,952	576,556

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	455.2
Other Long Term Liabilities	126.3
Total	581.5

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	2015/16	
	Actual	Approved Indicator	Revised Estimate
General Fund	12.88%	13.76%	12.93%
General Fund (excl. PFI)	10.79%	11.74%	10.85%
HRA	34.31%	30.19%	30.51%
HRA (excl. PFI)	29.90%	27.75%	28.11%

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.