

Report to Business & Transformation Scrutiny Panel

Agenda
Item:
A.5

Meeting Date: 3 December 2019
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework YES
Public / Private Public

Title: CAPITAL BUDGET OVERVIEW AND MONITORING REPORT:
APRIL TO SEPTEMBER 2019
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD 34/19

Purpose / Summary:

This report provides an overview of the budgetary position of the City Council's capital programme for the period April to September 2019 which was considered by the Executive on 18 November 2019.

Questions for / input required from Scrutiny:

Members are asked to note the variances contained within this report.

Recommendations:

Members of the Business & Transformation Scrutiny panel are asked to scrutinise the overall budgetary position for the period April to September 2019.

Tracking

Executive:	18 November 2019
Scrutiny:	3 December 2019
Council:	n/a

Report to Executive

Agenda
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APRIL TO SEPTEMBER 2019
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD 34/19

Purpose / Summary:

This report provides an overview of the budgetary position of the City Council's capital programme for the period April to September 2019.

Recommendations:

The Executive is asked to:

- (i) Note and comment on the budgetary position and performance aspects of the capital programme for the period April to September 2019;
- (ii) Note adjustments to the 2019/20 capital programme as detailed in paragraph 2.1.

Tracking

Executive:	18 November 2019
Scrutiny:	3 December 2019
Council:	n/a

1. BACKGROUND

- 1.1 In accordance with the City Council's Financial Procedure Rules, the Corporate Director of Finance and Resources is required to report to the Executive on the overall budget position, the monitoring and control of expenditure against budget allocations and the exercise of virement on a regular basis. It is the responsibility of individual Chief Officers to control income and expenditure within their areas of responsibility and to monitor performance, taking account of financial information provided by the Corporate Director of Finance and Resources.
- 1.2 All Managers receive a monthly budget monitoring report covering their areas of responsibility. Information is collated from the main accounting system and then adjusted to correct any known budget profiling trends, timing differences and commitments. The report has been developed in line with the need to provide sound financial management information to inform the decision making process.
- 1.3 Throughout the report, the use of brackets indicates a credit or income budget, and the term underspend also relates to additional income generated.
- 1.4 It is important to understand the distinction between capital and revenue expenditure.

The general rule is that all expenditure must be treated as revenue expenditure unless it meets strict criteria allowing it to be treated as capital expenditure.

Capital expenditure is for fixed assets such as acquisition of land and buildings, construction, conversion or enhancement of existing buildings, or the purchase of new technology, vehicles, plant, machinery or equipment that yields benefits to the Council and the services it provides for more than one year.

Revenue expenditure is for the day to day running costs of providing Council services such as staff costs, premises, transport, and goods and services used in the delivery of services.

2. CAPITAL BUDGET OVERVIEW

- 2.1 The following statement shows the annual capital programme for 2019/20:

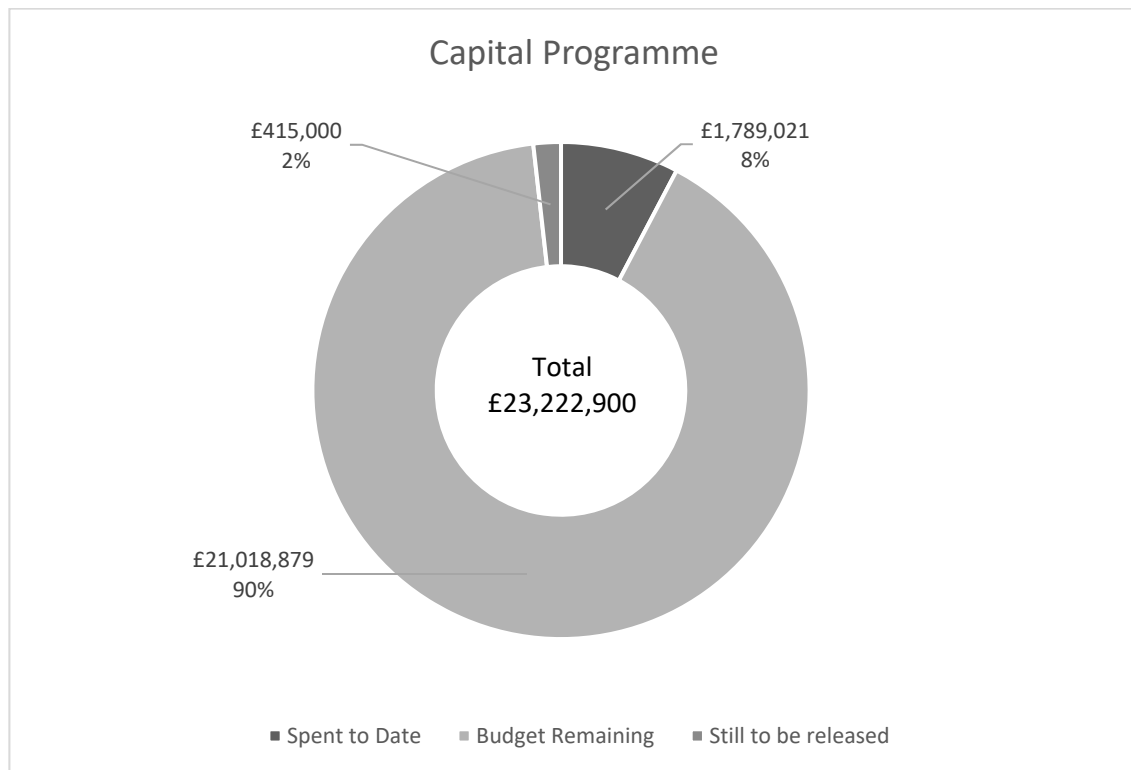
2019/20 Capital Budget	£
2019/20 Capital Programme (RD14/19 Council 16/07/19)	23,192,000
Revenue contribution towards Customer Contact Centre (OD.067/19)	7,000
Revenue contribution towards Bitts Park Tennis Court (OD.075/19)	23,900
Revised 2019/20 Capital Programme (at Sep 2019)	23,222,900
Less Capital Reserves to be released by Executive (see para 3.7)	(415,000)
Revised 2019/20 Capital Programme (released)	22,807,900

2.2 A breakdown of the revised capital programme can be found in **Appendix A**.

3. 2019/20 BUDGET MONITORING

3.1 The position statement as at September 2019 can be summarised as follows:

Directorate	Revised Annual Budget £	Budget to Date £	Spend to date £	Variance to date £	Para. Ref.
Community Services	12,386,300	277,436	272,463	(4,973)	3.3
Corporate Support	123,900	41,091	2,336	(38,755)	3.4
Economic Development	200,400	50,400	62,386	11,986	3.5
Governance & Regulatory Services	10,141,500	1,782,680	1,448,435	(334,245)	3.6
Total	22,852,100	2,151,607	1,785,620	(365,987)	
Flood Related Capital	(44,200)	(68,100)	3,401	71,501	
Total	22,807,900	2,083,507	1,789,021	(294,486)	
Reserves to be released	415,000	0	0	0	3.7
Total	23,222,900	2,083,507	1,789,021	(294,486)	



Schemes still to be released by the Executive are outwith the budget monitoring process until the budgets have been released.

A detailed analysis of the schemes within each directorate can be found in **Appendices B to F** with the main issues being summarised in the paragraphs below.

- 3.2 As at the end of September, expenditure of £1,789,021 has been incurred on the Council's core capital programme. When considered against the profiled budget of £2,083,507 this equates to an underspend of £294,486.

The unspent balance remaining of the revised annual budget of £22,807,900 is £21,018,879. This will be closely monitored over the following months to identify accurate project profiles and any potential slippage into future years.

- 3.3 There are no significant variances to report within Community Services.
- 3.4 The variance in Corporate Support is attributable to an underspend of £38,755 on ICT Upgrades against the profiled budget to date. Implementation has been delayed and a revised plan for delivery will be developed over the coming months with the current expectation that all projects will be completed within the current financial year. This will continue to be closely monitored.

- 3.5 The variance in Economic Development is attributable to an overspend of £11,986 on Durranhill Industrial Estate due to additional footpath works that have been carried out. There is currently no budget allocated to fund these works.
- 3.6 The variance in Governance & Regulatory Services is attributable to an underspend of £343,696 on Disabled Facilities Grants. Spend in the first half of 2019/20 is £1,098,489 which is greater than the expenditure in the first half of 2018/19 (£874,723). Activity in the delivery of DFG is increasing and the position is being closely monitored. An Action Plan confirms expenditure until 2021 - presently on target with 2019/20 estimates. £250,000 returned from the County Council will require re apportioning.
- 3.7 A number of schemes are included in the capital programme for 2019/20 that require a report to be presented to the Executive for the release of funding before the project can go ahead.

Scheme	Budget £
Play Area Improvements	35,000
Public Realm Improvements	380,000
Total	415,000

4. FINANCING

- 4.1 The 2019/20 capital programme can be financed as follows:

	Annual Budget £	Current Programme £
Total Programme to be financed (para 2.1)	23,222,900	22,807,900
<u>Financed by:</u>		
Capital Receipts / Internal Borrowing	3,545,400	3,130,400
Borrowing undertaken	14,000,000	14,000,000
Capital Grants		
• Disabled Facilities Grant	1,899,800	1,899,800
• General	2,024,700	2,024,700
Direct Revenue Financing	1,618,100	1,618,100
Other Contributions	134,900	134,900
Earmarked Reserves	0	0
Total Financing	23,222,900	22,807,900

5. CAPITAL RESOURCES

5.1 The following table shows the position as at September 2019 of the capital resources due to be received during 2019/20:

	2019/20 Annual Budget £	2019/20 Actual £	2019/20 Not yet received £	Note
Capital Receipts				
· General	0	(18,000)	(18,000)	1
· Asset Review	(1,700,000)	0	1,700,000	1
· Vehicle Sales	0	(53,770)	(53,770)	2
Capital Grants				3
· Disabled Facilities Grant	(1,899,800)	(1,899,764)	36	
· Sands Centre	(2,000,000)	0	2,000,000	
Capital Contributions				
· Section 106	(134,900)	(52,400)	82,500	4
· Disabled Facilities Grants	0	(17,780)	(17,780)	
· General	0	0	0	
Total	(5,734,700)	(2,041,714)	3,692,986	

Notes:

1. Receipts for 2019/20 are anticipated to be received from asset review sales (£1,700,000). Included within general sales are receipts of £6,000 that are below the de minimis for capital receipts and will be transferred to revenue.
2. Included within vehicle sales are receipts of £31,770 for individual vehicle sales that are below the de minimis for capital receipts. These will be transferred to revenue and the year end and will be used to fund the capital programme in line with the capital strategy.
3. Capital grants are received once associated capital expenditure has been incurred and the amounts then reclaimed from the sponsoring body.
4. Contributions from Section 106 agreements to Affordable Homes (£50,400) and Open Space Improvements (£84,500).

6. BALANCE SHEET MANAGEMENT

6.1 In line with CIPFA guidance and best practice, information relating to significant capital items on the Council's balance sheet is provided in this section. The information concentrates on those items that may have a material impact on the Council if not reviewed on a regular basis and will ensure that the Council is using its resources effectively and that appropriate governance arrangements are in place around the use of Council assets and liabilities.

- 6.2 Fixed assets are revalued annually to ensure that an up to date value is held in the balance sheet. The revaluation programme is the responsibility of Property Services. It should be noted that some expenditure will be incurred during the course of the year which can be correctly classified as capital expenditure, but which will not increase the value of any of the Council's assets. This expenditure is written off to the revaluation reserve or through the Comprehensive Income and Expenditure Account as appropriate.
- 6.3 The value of fixed assets is a significant part of the balance sheet. In the 2018/19 accounts, fixed assets totalled £157million (2017/18 £157million). This represents 94% of the net current assets of the City Council.
- 6.4 Debtors
This relates to the amount of income due to the Council that has not yet been received. For capital items, this mainly relates to grants and contributions that the Council is able to claim towards funding capital expenditure. Generally capital debtors arise due to timing differences where a cut off point occurs (e.g. the financial year-end) and/or expenditure has been incurred in advance of making the grant claim. As at September 2019 debtors of £194,075 (£274,010 at 31 March 2019) were outstanding for capital grants, contributions and receipts.
- 6.5 Creditors
This is the amount of money due to be paid by the Council for goods and services received from its external customers and contractors. For capital schemes this also includes retentions i.e. the amount due to the contractor after a specified period (normally one year) following the completion of a project; this time is used to assess and correct any defects outstanding on the scheme. Amounts earmarked for retention as at September 2019 totalled £75,546 (£449,990 at 31 March 2019).

7. PERFORMANCE

- 7.1 The 2019/20 programme has been kept to a level that takes account of the Council's ability to deliver schemes with regard to capacity and available resources. Work is ongoing to continue to monitor the profiling of budgets, and these are adjusted to reflect progress in current capital schemes. It is likely that there will still be a requirement for some carry forwards at the year end due to further slippage and delays on projects. Members are reminded that budgets now totalling £415,000 are being held in reserves until approved by Executive for release.
- 7.2 The Senior Management Team will provide strategic overview and monitor the effectiveness of the overall programme of work in delivering the Council's priorities

and objectives. Technical project support and quality assurance of business cases and associated project management activities will be managed by a Transformation Sub-Group chaired by the Chief Executive. Decisions to proceed or otherwise with proposed projects will be made in the usual way in accordance with the Council decision making framework.

- 7.3 A review of all capital expenditure incurred is ongoing to ensure that the expenditure has been correctly allocated between revenue and capital schemes. This will facilitate the year end classification of assets.

8. RISKS

- 8.1 Individual capital schemes have different risks involved. A risk assessment of the overall capital programme is included in **Appendix G**.

9. CONSULTATION

- 9.1 Consultation to Date
SMT & JMT have considered the issues raised in this report.
- 9.2 Consultation Proposed
Business & Transformation Scrutiny Panel will consider the report on 3 December 2019.

10. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 10.1 The Executive is asked to:
- (i) Note and comment on the budgetary position and performance aspects of the capital programme for the period April to September 2019;
 - (ii) Note adjustments to the 2019/20 capital programme as detailed in paragraph 2.1.

11. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 11.1 The Council's capital programme supports the current priorities in the Carlisle Plan.

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Appendices A to G

attached to report:

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers: • None

CORPORATE IMPLICATIONS:

LEGAL – The Council has a fiduciary duty to manage its finances properly and the proper reporting of the budget monitoring is part of this process.

FINANCE – Financial implications are contained in the main body of the report.

EQUALITY – This report raises no explicit issues relating to the public sector Equality Duty.

INFORMATION GOVERNANCE – There are no information governance implications.

2019/20 CAPITAL PROGRAMME
APPENDIX A

Scheme	Original Capital Programme 2019/20 £	Carry Forwards from 2018/19 £	Carry Forwards from 2018/19 £	Other Adjustments £	Revised Capital Programme 2019/20 £
<u>Current non-recurring commitments</u>					
Gateway 44	6,500,000	0	(40,800)	0	6,459,200
Play Area Green Gyms	0	25,000	7,800	0	32,800
Open Space Improvements	0	84,500	0	0	84,500
Bitts Park (Tennis/Reinstatement)	0	0	94,000	0	94,000
Cemetery Infrastructure	0	0	11,200	0	11,200
Affordable Homes	0	0	46,400	4,000	50,400
Planning Software	0	0	150,000	0	150,000
Property Purchase	0	0	150,000	0	150,000
Flood Reinstatement Projects	0	0	(68,100)	23,900	(44,200)
Sands Centre Redevelopment (1)	15,395,000	0	550,700	(5,572,200)	10,373,500
Civic Centre Digital Banner	0	0	0	20,500	20,500
Customer Contact Centre	0	0	0	7,000	7,000
	21,895,000	109,500	901,200	(5,516,800)	17,388,900
<u>Recurring commitments</u>					
Planned Enhancements to Council Property	250,000	0	79,600	0	329,600
Vehicles, Plant & Equipment	896,000	0	828,800	0	1,724,800
Recycling Containers	45,000	0	0	0	45,000
ICT Infrastructure	102,900	0	14,000	0	116,900
	1,293,900	0	922,400	0	2,216,300
<u>Disabled Facilities Grants</u>					
Private Sector Grants	1,467,300	872,600	407,100	432,500	3,179,500
Minor Works Grants	0	0	23,200	(23,200)	0
Empty Properties Initiative	0	0	0	23,200	23,200
	1,467,300	872,600	430,300	432,500	3,202,700
TOTAL	24,656,200	982,100	2,253,900	(5,084,300)	22,807,900
<u>Capital Reserves to be released</u>					
Play Area Improvements	35,000	0	0	0	35,000
Public Realm Improvements	380,000	0	0	0	380,000
	415,000	0	0	0	415,000
REVISED TOTAL	25,071,200	982,100	2,253,900	(5,084,300)	23,222,900

Note (1): The 2019/20 budget allocation now reflects the increased level of spend in 2018/19.

COMMUNITY SERVICES

Scheme	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Details of major variance
Civic Centre Digital Banner	20,500	0	0	0	Revenue contribution to capital approved under delegated authority to provide a replacement digital banner. The equipment is faulty and not possible to repair due to obsolete technology and therefore needs to be replaced. The work has taken place and is due to be invoiced shortly.
Vehicles & Plant	1,724,800	32,400	32,040	(360)	Replacement of vehicles to date is within the allocated budgets. A revised replacement plan for the next 5-10 years has been provided as part of the 2020/21 budget process to confirm the capital funding needed to ensure the Council's fleet remains fit for purpose.
Cemetery Infrastructure	11,200	5,602	3,172	(2,430)	Footbridge improvements are underway and due to be completed in 2019/20.
Open Space Improvements	84,500	2,003	2,000	(3)	Funded by Section 106 monies.
Green Gyms	32,800	0	(3,171)	(3,171)	Project slipped from 2018/19. Credit in relation to reduced fee for works completed.
Bitts Park/Tennis Reinstatement	94,000	0	0	0	Revenue contribution to capital towards the Bitts Park Tennis Facilities project has been carried forward into 2019/20 as potential funding towards a proposed scheme at Bitts Park. Further information will be presented to a future meeting.
Sands Centre Redevelopment	10,373,500	192,431	192,639	208	Budget reprofiled based on revised report approved by Council (CS.17/19 - 25/06/19).
Waste Minimisation	45,000	45,000	45,783	783	Purchase of waste receptacles are overspent against the annual budget. The Council is no longer able to charge developers for the cost of new bins, bags and boxes provided for new homes. This will impact the level of revenue income generated which has previously been used to increase the capital budget.
Grand Total	12,386,300	277,436	272,463	(4,973)	

CORPORATE SUPPORT

Scheme	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Details of major variance
ICT Infrastructure	116,900	41,091	2,336	(38,755)	Part of ICT Strategy Business Case. Implementation has been delayed and a revised plan for delivery will be developed over the coming months with the current expectation that all projects will be completed within the current financial year..
Customer Contact Centre	7,000	0	0	0	Release of Flood Reserve for the installation of Qmatic System (OD.067/19).
Grand Total	123,900	41,091	2,336	(38,755)	

ECONOMIC DEVELOPMENT

Scheme	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Details of major variance
Durranhill Industrial Estate	0	0	11,986	11,986	Additional footpath works for which there is currently no budget allocated.
Planning Software	150,000	0	0	0	The project has been delayed whilst software options are being evaluated and core components of the project (for example data migration) are being further considered prior to the detail business case and tenders being prepared.
Affordable Homes	50,400	50,400	50,400	0	S106 funding towards provision of Affordable Homes. Project now complete.
Grand Total	200,400	50,400	62,386	11,986	

GOVERNANCE & REGULATORY SERVICES

Scheme	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Details of major variance
Planned Enhancements to Council Property	329,600	41,840	50,686	8,846	Individual projects progressing as planned.
Property Acquisition	150,000	150,000	153,429	3,429	Property purchase now complete. Slight overspend in relation to stamp duty land tax.
Gateway 44	6,459,200	145,333	145,831	498	Development and Improvement costs associated with the Junction 44 development. Tenders are being assessed.
Empty Properties Initiative	23,200	3,322	0	(3,322)	Funding provided from minor works grant allocation. This will be at Economic Growth Scrutiny Panel on the 17th October and Executive on the 18th November 2019. Once agreed the Grant initiative can start to be used for bringing empty homes back into use.
Disabled Facilities Grants	3,179,500	1,442,185	1,098,489	(343,696)	Mandatory Grants. Increased grant allocation for 2019/20. The position is being closely monitored. An Action Plan confirms expenditure until 2021 - presently on target with 2019/20 estimates. £250,000 returned from the County Council will require re apportioning.
Grand Total	10,141,500	1,782,680	1,448,435	(334,245)	

FLOOD RELATED CAPITAL EXPENDITURE

Scheme	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Details of major variance
IC Buildings Flood Capital	(44,200)	(68,100)	3,401	71,501	Negative budget carry forward was in relation to expenditure incurred in 2018/19 on the reinstatement of Bitts Park and Civic Centre. Once schemes have been fully developed and approved, budgets will be released from reserves to cover both projected expenditure and also costs incurred in 2018/19.
Grand Total	(44,200)	(68,100)	3,401	71,501	

APPENDIX G

Capital Programme – Risk Assessment

Risk	Likelihood	Impact	Mitigation
Capital projects are approved without a full appraisal of the project and associated business case.	Remote	Marginal	Strengthen the role of Transformation Sub-Group when considering capital project appraisals, to include consideration of business cases
Full capital and revenue costs of a project not identified.	Reasonably Probable	Marginal	Capital spending must meet statutory definitions. Financial Services to regularly review spending charged to capital. Appraisals to identify revenue costs, including whole life costs to improve financial planning. This may need to be reviewed if major schemes progress, e.g. Sands
VAT partial exemption rules are not considered.	Reasonably Probable	High	Reduced impact following the decision to elect to tax land and property. To be considered as part of Project Appraisals and assessed by Financial Services.
Capital projects are not monitored nor reviewed (post contract) to ensure that the original business case assumptions have been achieved	Reasonably probable	Marginal	Better project management skills (including contract monitoring) have been introduced through PRINCE 2. Project managers to take more ownership and responsibility for the delivery of projects, including post contract reviews.
Capital projects are not delivered to time	Reasonably Probable	High	Significant slippage in the current capital programme. Better project management skills to be introduced through PRINCE 2. Project managers to take more ownership and responsibility for the delivery of projects. The review of the capital programme currently underway will address some of these issues.
Capital projects are not delivered to budget. Major variations in spending impact on the resources of the Council.	Reasonably Probable	Marginal	Improved capital programme monitoring through PRINCE 2 and monthly financial monitoring. Corrective action to be put in place where necessary.
Assumptions on external funding for capital projects are unrealistic	Probable	High	Potential shortfalls arising from changes to external funding have to be met from other Council resources, so assumptions need to be backed by firm offers of funding before projects are submitted for appraisal. Risk increased due to uncertainty around funding, e.g. MHCLG grants
Spending subject to specific grant approvals e.g. housing improvement grants, disabled persons adaptations varies from budget	Remote	Marginal	Specific grants are generally cash limited so variations in projects supported by funding of this nature will be monitored closely to ensure target spend is achieved to avoid loss of grant or restrictions on subsequent years grant funding.

Shortfall in level of capital resources generated from Capital Receipts	Probable	High	Economic downturn will impact - early warning so as not to over commit capital resources.
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