



CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Committee Report

Public

Date of Meeting: 22 February 2007
Title: CAPITAL BUDGET OVERVIEW AND MONITORING REPORT:
APRIL TO DECEMBER 2006
Report of: THE DIRECTOR OF CORPORATE SERVICES
Report reference: CORP 84/06

Summary:

This report provides an overview of the Council's budgetary position on the capital programme for the period April to December 2006. As well as monitoring the progress of the schemes within the capital programme, the report includes details of the capital resources available to the authority, how the 2006/07 programme is financed, and information regarding balance sheet management.

Members' attention is drawn to the budgetary position as at December 2006. The programme shows an overspend of £113,842 but this will be reimbursed by insurance monies and grant claims in due course. Budgets have been reallocated during the 2007/08 budget process and slippage of £2,070,100 has been identified and reprofiled to future years. Movements on the capital programme for 2006/07 can be found in Appendix A and details of the schemes within each directorate can be found in Appendices B to F.

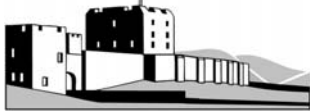
Recommendations:

Members of the Corporate Resources Overview and Scrutiny Committee are asked to note the overall budgetary position for the period April to December 2006. The Executive considered this report on 19 February 2007.

Contact Officer: Jackie Grierson

Ext: 7289

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None



REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE AND PERFORMANCE MANAGEMENT

Date of Meeting: 19 February 2007

Public

Key Decision: No

Recorded in Forward Plan:

No

Inside Policy Framework

**Title: CAPITAL BUDGET OVERVIEW AND MONITORING REPORT:
APRIL TO DECEMBER 2006**

Report of: THE DIRECTOR OF CORPORATE SERVICES

Report reference: CORP84/06

Summary:

This report provides an overview of the budgetary position of the City Council's capital programme for the period April to December 2006. Progress against the annual revenue budget is a separate report, which is considered elsewhere on the agenda.

Recommendations:

The Executive is asked to:

- (i) Note the contents of the report.

Contact Officer: Jackie Grierson

Ext: 7289

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

CITY OF CARLISLE

To: The Executive
19 February 2007

CORP84/06

CAPITAL BUDGET OVERVIEW AND MONITORING REPORT APRIL TO DECEMBER 2006

1. BACKGROUND INFORMATION AND OPTIONS

- 1.1 In accordance with the City Council's Financial Procedure Rules, the Director of Corporate Services 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. However, it is the responsibility of Directors to control income and expenditure within their areas of responsibility and to monitor performance, taking account of financial information provided by the Director of Corporate Services
- 1.2 All Managers currently 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, which is also a requirement of the Use of Resources assessment.
- 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.

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.

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.

2. CAPITAL BUDGET OVERVIEW

- 2.1 Full Council approved the original capital programme totalling £13,153,400 on 18 July 2006. There have been a number of amendments to the programme as at December 2006 as shown in the table below. The revised capital programme for 2006/07 now totals £9,921,170 as detailed in **Appendix A**.

Capital Programme	2006/07 £	Appendix/ Paragraph
Original programme	13,153,400	
Other adjustments	(1,404,330)	A
Capital programme per CORP48/06	11,749,070	
New schemes – renewals reserve	67,200	A
Slippage to future years	(2,070,100)	A
Capital programme per CORP78/06	9,746,170	
Other adjustments	175,000	2.2
Revised Capital programme	9,921,170	

- 2.2 Two further amendments are required to the 2006/07 capital programme as a result of external funding received during the course of the year. The budget for the MUGA scheme at Hammonds Pond has increased by £50,000 due to a contribution from external sources. An additional capital allocation of £75,000 in respect of the Disabled Facilities Grant has been received and the gross scheme will therefore increase by £125,000 with matched Council funding of £50,000 (the Council's 40% contribution).

3. 2006/07 BUDGET MONITORING

- 3.1 The position statement as at December 2006 can be summarised as follows:

Directorate	Revised Annual Budget £	Budget to date £	Expenditure to date £	Variance to date £	Potential Carry Forwards £	Adjusted Variance £	Para. Ref.
Community Services	4,550,800	2,747,151	2,089,492	(657,659)	714,000	56,341	3.3
Corporate Services	1,247,670	676,558	623,779	(52,779)	20,000	(32,779)	3.4
Development Services	3,797,100	2,354,725	2,449,888	95,163	0	95,163	3.5
Legal & Democratic	136,700	60,000	0	(60,000)	60,000	0	3.6
PP&P Services	188,900	64,125	59,242	(4,883)	0	(4,883)	3.7
Total	9,921,170	5,902,559	5,222,401	(680,158)	794,000	113,842	

A detailed analysis of the schemes within each directorate can be found in **Appendices B to F** with the main issues for each directorate being summarised in the paragraphs below. Expenditure to date totals £5,222,401, which leaves an underspend against the profiled budget of £680,158. Potential carry forwards to 2007/08 of £794,000 have been identified – these will be limited to the amount of underspend at the year end.

- 3.2 Of the annual budget of £9,921,170, only £5,222,401 has been spent to date, leaving a current balance of £4,698,769. The budget is profiled broadly in line with expenditure, so it is highly likely that there will be further carry forwards at the year-end.
- 3.3 The Community Services directorate is responsible for almost half of the City Council's capital programme. The adjusted variance shown above is mainly attributable to two schemes that are partly funded by the insurance reimbursement that has not yet been released. The overspend of £31,181 for Stonyholme can be met by the balance of the insurance settlement, and it is anticipated that the overspend for the Civic Centre of £21,810 can be offset by underspends on other Civic Centre schemes within the authority. The work in the Civic Centre due to the reorganisation was completed in December, and analysis of the total expenditure is now underway.
- 3.4 The underspend in Corporate Services relates predominantly to IT equipment being replaced from the renewals reserve. A fundamental review of the renewals reserve has recently taken place and any changes to the use and timing of expenditure from the reserve on the budget monitoring information are currently being assessed.
- 3.5 Most of the capital schemes in Development Services relate to Housing projects:
- (i) Private Sector Grants cover a number of areas where grants are given to householders for improvement work on their homes. Typically there is a long lead-time between the approval of the grant and the completion of the work. Consequently, the budget is expected to be fully committed by the year-end, but will not be fully spent, and a carry forward will be required.
 - (ii) Like the private sector grants, there is a delay in Housing Strategy projects between approval and work completed, and a carry forward is likely. The overspend on the Housing Strategy relates to Disabled Adaptations, where the 2006/07 allocation has been fully spent. In accordance with the Financial

Procedure rules, any overspends are usually a first call on the following year's budget.

- (iii) Some progress has been made with the £1.5m grant from the ODPM for private sector renewal work following the flood. Since the last quarterly report a further £175,000 has been approved as a carry forward into 2007/08 for work on Decent Homes. The overspend relates to expenditure on new schemes which resulted from the reallocation of surplus monies within the original scheme, but to which budgets have not yet been vired.

3.6 The budgets within Legal & Democratic Services relate to the Millennium Gallery. It is anticipated that the expenditure will be incurred during 2007/08 and a carry forward may be required.

3.7 There are two schemes within People, Policy & Performance Services. The replacement payroll/personnel system is on target to go live in April 2007, but the Electronic Document Records System can only be progressed once a detailed business case is presented to the Executive.

4. FINANCING

4.1 The 2006/07 capital programme can be financed as follows:

Receipts during 2006/07	£	£
• Right to Buy Sharing Agreement	2,500,000	
• Land Sales	3,605,000	
• Capital Grants	304,000	
• Regional Housing Pot Grant	<u>1,503,000</u>	7,912,000
Transfer from reserves		
• Direct Revenue Financing	69,000	
• Usable Capital Receipts	471,200	
• Contributions from other bodies	148,900	
• Capital Grants	520,800	
• Repairs & Renewals Reserve	<u>799,270</u>	<u>2,009,170</u>
Total Capital Programme		<u>9,921,170</u>

5. CAPITAL RESOURCES

5.1 The following table shows the position as at December 2006 of the capital resources anticipated in 2006/07:

Capital Resources	2006/07 Budget £	2006/07 Actual £	2006/07 Variance £	Note
Capital Receipts				
• General	(3,605,000)	(3,075,221)	529,779	1
• PRTB Sharing agreement	(2,500,000)	0	2,500,000	2
Capital Grants				
• Disabled Facilities Grant	(280,000)	(280,000)	0	
• Regional Housing Pot	(1,503,000)	(1,503,000)	0	
• Sport England	(24,000)	(6,944)	17,056	
• NWDA	0	(17,115)	(17,115)	3
Capital Contributions	0	(58,000)	(58,000)	
Total	(7,912,000)	(4,940,280)	2,971,720	

Note:

1. The majority of this amount will be received in one payment in February 2007.
2. PRTB income for the year is received on 28 April following the year-end.
3. The North West Development Agency reimburses expenditure made on behalf of the Longtown Market Town Initiative.

6. BALANCE SHEET MANAGEMENT

- 6.1 As reported in the last quarterly report, it is vital that capital expenditure is correctly classified and this was one of the main concerns raised by the Audit Commission during the 2005/06 audit process. The issues which were particularly highlighted relate to the use made of the ODPM capital grant of £1.5m awarded to the Council following the floods, expenditure incurred on back lanes and environmental enhancement work, and the terminology used to describe the enhancement work carried out.
- 6.2 Other areas of concern during the audit process included the correct classification of assets within the balance sheet, the calculation of depreciation arising from asset valuations, the valuation of short leasehold interests held by the Council, and the treatment of monies received as deposits on long term lease agreements as capital receipts, prior to legal agreements being made.
- 6.3 Procedures have been introduced to address these issues and ensure they are resolved during the 2006/07 final accounts process.
- 6.4 Fixed assets are revalued on a five-year rolling programme to ensure that an up to date value is held in the balance sheet. The revaluation programme is the responsibility of the Property Services section. 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 fixed asset revaluation account.

- 6.5 The value of fixed assets is a significant part of the balance sheet. In the 2005/06 accounts, fixed assets totalled £126m (2004/05 £94m). This represents 82% of the net current assets of the City Council.
- 6.6 The Council's long term investments are also classed as fixed assets in the balance sheet. This includes the investment with Kingmoor Park Properties and the transferred debt with Cumbria County Council, totalling £838,000 in 2005/06 (2004/05 £878,000).
- 6.7 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, and receipts for the Council's share of the PRTB (Preserved Right to Buy) agreement. 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 31st December 2006 debtors of £66,200 (£285,000 at 31 March 2006) were outstanding for capital grants, and £1.5m (£4m at 31 March 2006) for PRTB receipts (based on information from CHA on sales to date), although the City Council will receive no payment until April 2007. There would be a significant impact on the cash flow of the Council if these outstanding sums were not received. However, there is no reason to believe that the debts will not be paid.
- 6.8 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 December 2006 totalled £150,000 (£1,272,800 at 31 March 2006).

7. PERFORMANCE

- 7.1 A report on the work of the Capital Programmes Board and the Capital Projects Board was made to the Corporate Resources Overview and Scrutiny Committee in January 2007 (CORP 70/06).
- 7.2 The Capital Projects Board continues to monitor the whole capital programme. Progress against those schemes that are behind schedule or are underspending (which is generally a timing issue) is highlighted, and further information is sought from the relevant project managers.
- 7.3 Individual project boards have been set up to monitor capital schemes relating to Housing. A member of the Capital Projects Board sits on the Housing Board and reports back to the Projects Board. It is envisaged that paying close attention to the progress of these schemes will assist in the delivery of the Housing Strategy Action Plan, and budgets will be allocated accordingly. The schemes have a balance of over £1m in the 2006/07 budgets, although part of this is attributable to an additional allocation of Disabled Facilities Grant that was received during the year.
- 7.4 Despite the agreed carry forwards into 2007/08 (see Appendix A), only 53% of the revised capital programme at December has been spent. Further carry forwards may be sought at the year-end and this could impact on the authority's ability to deliver the next year's capital programme. To this end, the 2007/08 programme has been kept to a level that takes account of these capacity issues.
- 7.5 The procedure for carrying forward budgets into the following year is currently under review and is likely to be more stringent this year. The Capital Projects Board will review carry forwards for capital schemes to determine correct profiling of budgets for future years.

8 PLANNED ACTIONS

- 8.1 In line with the Use of Resources requirements, actions to address the variances reported in this report are as follows:
- (i) Finalise the allocation of the insurance monies to the relevant capital schemes
 - (ii) Ensure that all capital expenditure is correctly classified
 - (iii) Reallocate the balance of the ODPM grant remaining to new schemes identified by the Executive
 - (iv) Closely monitor the progress made against the capital programme and the reasons for any delay in delivery
 - (v) Reprofile the repair and renewals reserve expenditure

9. CONSULTATION

9.1 Consultation to Date.

SMT have considered the issues raised in this report.

9.2 Consultation proposed.

Corporate Resources Overview & Scrutiny Committee will consider the report on 22nd February 2007.

10. RECOMMENDATIONS

The Executive is asked to note the contents of the report.

11. REASONS FOR RECOMMENDATIONS

As stated above.

12. IMPLICATIONS

- Staffing/Resources – Not applicable
- Financial – Contained within the main body of the report
- Legal – Not applicable
- Corporate – SMT have been involved in the preparation of this report.
- Risk Management – Not applicable
- Equality Issues – Not applicable
- Environmental – Not applicable
- Crime and Disorder – Not applicable

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