

Report of the Head of Strategic Support

APPENDIX
A

ITEM 6 CAPITAL PROGRAMME UNDERPEND – RECOMMENDATIONS OF
AUDIT COMMITTEE

Purpose of Report

To consider the recommendation of the Audit Committee relating to the spend level of the capital programme (which arose during the Committee's consideration of the Treasury Management Strategy and the Annual Investment Strategy for the first 6 months of 2018/19, see Audit Committee Minute 35, 2018/19), alongside an officer recommendation and advice in response, with a view to the Cabinet deciding if it wishes to agree the action it wishes to take.

Recommendations and Reasons

Set out below is a recommendation and reason of the Committee, followed by the officer recommendation and advice.

Committee Recommendation

That the Cabinet respond to the concerns of the Committee over the level of Capital Programme underspend and provide assurances that the programme would be significantly delivered before the end of the financial year.

Reason

The Committee had concerns about the level of capital programme expenditure against the budget expected at year end and wished to refer the matter to the Cabinet and re-visit the matter at the Audit Committee meeting scheduled for 26th February 2019.

Officer Recommendation

In light of capital expenditure to date, the Head of Finance and Property Services recommends that the Capital Plan continues to be amended to reflect revised expenditure on a quarterly basis.

Reason

To reflect the likely outcome for the Capital Plan.

Response of the Head of Finance and Property Services to concerns raised by the Audit Committee

There is an update below of the activity since the Audit Committee on 27th November 2018 which gives the latest position on the Capital Plan budgets and expenditure.

Review of the General Fund Capital Plan

Since the Capital Plan spend to date figures were presented in the Treasury Management Mid-year Review report to the Audit Committee in November, Cabinet has approved a net reduction to the General Fund capital plan of £323k from £5,213k to £4,890k on 13 December 2018. A breakdown of this net reduction is given below.

	Full year budget £'000
Position as at the end of Period 7 (end of October)	5,213
Capital Plan amendments as reported to Cabinet 13.12.18	
Budget carry forwards:	
Loughborough University Science & Enterprise Park	(350)
Leicestershire Superfast Broadband	(100)
Carbon Management Scheme	(57)
Public Realm Shepshed town centre	(12)
Budget brought forward from 2019/20:	
Replacement Hardware Programme - Block Sum	40
Additional funding/New scheme	
Carillon Tower Restoration Project (covered by increase in external funding)	7
Messenger Close (covered by income from tenants)	12
Loughborough Market - new tug	22
The Outwoods (covered by increase in external funding)	140
Reduction in budget	
Green Spaces Programme (reduced level of external funding being received)	(25)
Position as at the end of Period 8 (end of November)	4,890

The ongoing review and amendment of the Capital plan are processes embedded in the Council's procedures. The impact of the latest set of amendments is to revise the total planned capital expenditure downwards by a net £323k, principally due to the ongoing carry forward of prospective investment in Loughborough University Science & Enterprise Park (for which no concrete plans exist) and the carry forward of the next tranche of funding for Leicestershire Superfast Broadband, which is not a project that is managed by the Council.

The revised budget for 2018/19 at the end of Period 8 (November) was therefore £4,890k, of which £2,013k was profiled to have been spent at this time. The actual spend to the end of period 8 was £1,715k. Thus 85% of the profiled budget had been spent at this time compared to only 53% at the end of period 7. A summary of the General Fund spend as at the end of Period 7 and Period 8 are shown below.

Capital Programme - updated position as at Period 8 (end of November)					
	Actual spend £'000	Profiled budget £'000	Spend as a % of profiled budget	Full year budget £'000	Spend as a % of full-year budget
General Fund					
Position as at the end of Period 7 (end of October)	940	1,787	53%	5,213	18%
Position as at the end of Period 8 (end of November)	1,715	2,013	85%	4,890	35%

The capital plan can be broken down into two distinct elements i.e. the directly delivered schemes and indirectly delivered schemes. It is important to understand that there is a difference between the two. Directly delivered schemes are the ones that the council has control over and the council is responsible for carrying out all aspects of the scheme from the design, through to the appointment of contractors and completion. Examples include capital spend on council car parks or the Town Hall. Indirectly delivered schemes are the schemes that the council is either funding or 'passporting' funding from third parties to individuals and organisations. These schemes will include the Disabled Facilities Grants and all the s106 funded schemes.

The split of the General Fund capital plan into the two elements is shown in the table below.

Capital Programme - updated position as at Period 8 (end of November)					
	Actual spend £'000	Profiled budget £'000	% of profiled budget	Full year budget £'000	Spend as a % of full-
General fund					
Directly delivered schemes	1,267	1,213	104%	2,790	45%
Indirectly delivered schemes	448	801	56%	2,104	21%
Total - General Fund	1,715	2,013	85%	4,894	35%

As illustrated by the table above, expenditure on the directly delivered schemes is broadly on track in respect of the budget profile. Some risk exists with the delivery of the various schemes by the end of the financial year as profiling shows that over half of the expenditure is due to occur in the last third of the year (although much of this is already committed). There are other schemes within the capital plan where budgets are fully committed and will be spent by the year-end e.g. Information Technology related schemes. No one scheme is especially significant in the context of the total budget but certain schemes around the delivery of open spaces projects appear to carry a risk that not all will be complete by the end of the financial year.

As the figures in the table show, it is the indirectly delivered schemes, which the council cannot directly influence and control, where there is the highest level of underspend. A significant variance is around the Disabled Facilities Grants which at present is showing a spend of £379k to the end of period 8 against a total budget for the year of £1,029k (representing expenditure of 37% of the budget to this date). Of the full year budget 96% is committed (i.e. applications have been approved and each application has a budget set aside for it) but the council has no control beyond committing the budget and clearly some risk of underspending exists.

Appendix A gives details of all the schemes and budget managers have forecast their expected year-end position and commented on their schemes.

Review of the HRA Capital Plan

The HRA capital plan for 2018/19 is £7,566k, and 30% of this had been spent by the end of period 8. The actual expenditure at the end of period 8 was £2,281k and the profiled budget to the end of period 8 was £1,512k, thus 151% spent. The table below summarises the position and movement since the end of Period 7.

Capital Programme - updated position as at Period 8 (end of November)					
HRA	Actual spend £'000	Profiled budget £'000	Spend as a % of profiled budget	Full year budget £'000	Spend as a % of full-year budget
Position as at the end of Period 7 (end of October)	681	1,123	61%	7,566	9%
Position as at the end of Period 8 (end of November)	2,281	1,512	151%	7,566	30%

All HRA services are directly delivered services. The total budget for these is £7,566k.

The total HRA budget can be split into two elements i.e. property acquisitions and improvements and enhancements to HRA assets. This is shown in the table below.

Capital Programme - updated position as at Period 8 (end of November)					
HRA	Actual spend £'000	Profiled budget £'000	Spend as a % of profiled budget	Full year budget £'000	Spend as a % of full-year budget
Property Acquisitions	1,170	514	228%	1,953	60%
Improvements & Enhancements to HRA Assets	1,111	998	111%	5,613	20%
Total - HRA	2,281	1,512	151%	7,566	30%

The budget for property acquisitions has been 60% spent which is above the target for spend as at Period 8. It is anticipated that the full year budget will be spent by the end of the year if appropriate and suitable properties become available for sale and the council is able to purchase them. Any underspend for this budget for the year will be carried forward into 2019/20.

The rest of the HRA budget of £5,613k is for improvements and enhancements to HRA assets, primarily the housing stock. The spend at the end of period 8 was £1,111k which is 20% of the full year budget and there appears to be a significant risk that this element of the capital plan will not be completed within the financial year.

In respect of the above, the Head of Landlord Services has commented that "Mobilisation of the new capital contract with Fortem has been slower than expected, and there have been issues with Fortem's performance. A remedial plan and draft revised forecast have been provided by Fortem and are under review. It is expected that there will be an underspend across some Fortem capital budget lines based on performance to date. That said, a significant volume of work has been largely completed (Fortem estimate £1.7m to the end of December 2018) although not all of the amounts claimed have been agreed by the Council due to (for example) the required certification not being provided."

Forecast of Year-end Position for the Capital Programme

As noted above, Appendix A lists all the schemes that make up the capital plan. It shows the actual spend as at the end of November, the full year budget and the variance between these. It also gives a forecast of spend for the year and a comment about the scheme, both of which have been provided by the budget holder. The forecast spend for the full year is £10,461k which when compared to the full year budget of £12,661k shows that overall budget managers expect 84% of the budget to be spent. The capital budget will continue to be monitored. This forecast assumes full year spend of indirectly delivered schemes such as s106 schemes which can have the budget carried forward and the grants will be grant funded at the actual level of spend. As the indirectly delivered schemes are funded by external sources they do not impact on the council's availability of resources to fund capital schemes.

Policy Justification and Previous Decisions

Chapter 5, section 5.5 (b) of the Constitution states that the Audit Committee can refer matters of concern to the Council, Cabinet, or appropriate committee. The Chair or Vice Chair of the Committee may address the Cabinet or a committee and the Vice-chair of the Committee may address the Council before the report is considered.

Implementation Timetable including Future Decisions and Scrutiny

Monitoring of the capital programme is ongoing.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications.

Risk Management

There are no specific risks associated with the recommendations of the Audit Committee.

Key Decision:	No
Background Papers:	Audit Committee Minute 35, 27th November 2018
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