

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 22 JUNE 2010

SUBJECT: CAPITAL EXPENDITURE OUT-TURN 2009-10

REPORT BY: HEAD OF CORPORATE FINANCE

CONTACT OFFICER: TRACY STONE 01582 546128

IMPLICATIONS:

LEGAL

COMMUNITY SAFETY

EQUALITIES

ENVIRONMENT

FINANCIAL

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CONSULTATIONS

STAFFING

OTHER

WARDS AFFECTED: NONE

PURPOSE

1. This report deals with the capital out-turn for 2009-10 and the financing of expenditure incurred. Capital outlay is controlled under the Local Government Act 2003 and Regulations and complies with the requirements of the Prudential Code for Capital Finance in Local Authorities operative from April 2004.

RECOMMENDATION(S)

2. Audit and Governance Committee is recommended to :-
 - (i) Confirm the actions taken to finance the Council's capital expenditure, as set out in paragraph 4.2

- (ii) Confirm the action taken in determining financing approvals of the 2009/10 expenditure as stated in paragraph 5.
- (iii) Confirm the action taken in not making a voluntary revenue provision for additional debt repayment in 2009-10 (as explained in paragraphs 11-12), over and above the minimum revenue provision that has been made in accordance with new regulations.
- (iv) To note the prudential indicators set out in paragraph 13-18

RESOURCES

3. The table below shows the capital resources available for 2009-10.

	HRA	General Fund	Total
	£000	£000	£000
Resources brought forward	1,620	13,842	15,462
Capital Reserve / Revenue	213	8,614	8,827
Major Repairs Reserve	6,126	-	6,126
Usable Capital Receipts	-	6,182	6,182
Grants	-	35,111	35,111
Supported Borrowing	1,756	9,723	11,479
Prudential Borrowing	-	20,631	20,631
Contributions	-	30,644	30,644
	9,715	124,747	134,462

EXPENDITURE AND FINANCING 2009-10

4. The Council has previously authorised me to finance the expenditure and the method is shown at 4.2 below. Schedules of expenditure and financing of individual projects are shown as Appendix A.

	HRA	General Fund	Total
	£	£	£
4.1 Expenditure	9,376,581	101,321,027	110,697,608
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4.2 Financed by:			
Capital Reserve	1,494,581	8,614,406	10,108,987
Major Repairs Reserve	6,126,000	-	6,126,000
Usable Capital Receipts	-	681,646	681,646
Grants	-	17,194,750	17,194,750
Supported Borrowing	1,756,000	9,723,190	11,479,190
Prudential Borrowing	-	20,630,627	20,630,627
Other Contributions	-	44,476,408	44,476,408
	9,376,581	101,321,027	110,697,608

FINANCING APPROVALS

5. The expenditure detailed in Appendix A was incurred in accordance with Standing Order 101.4. Capital programme monitoring reports post April 2009 will have assessed the spend approval and estimated spend on individual projects, and where necessary additional approval will have been sought. All the expenditure has been financed and the Audit and Governance Committee is requested to confirm this action.
6. The Capital Expenditure Monitoring Report submitted to the Executive in April 2010 identified that there was an estimated rephasing of £10.551m of General Fund expenditure to 2010-11, and information was provided on the individual projects that contributed. The out-turn for 2009-10 was £110.698m. This resulted in a further £2.4m of rephasing in to 2010-11

but also includes an additional £13.3m Equal Pay expenditure and provision and £28.9m expenditure for Barnfield South and West Academies that weren't previously included in the capital programme. HRA expenditure was within £0.3m of the projection. There will be a Capital Expenditure Monitoring Report submitted to the Executive in August 2010 that will reflect the implications for any rephasing as a result of the out-turn for 2009-10.

RESOURCES AVAILABLE / UTILISATION

7. In the following statement there is some £578.9m of estimated expenditure for the five year period and resources to fund this level of programme are potentially extremely volatile. The level of capital receipts over this period will be regularly reviewed and any reduced predictions will add to capital resource pressures. The levels of external resources from capital grants and contributions at £340.8m are extremely high. With these elements of uncertainty the forecasts should be treated with caution. For the period 1 April 2010 to 31 March 2015 (including expenditure in 2015-16 on continuing projects) estimated resources / expenditure can be summarised as :-

	HRA	General Fund	Total
	£000	£000	£000
<u>Forecast Capital Resources</u>			
Balance brought forward	548	14,476	15,024
Capital Reserve / Revenue	-	34,635	34,635
Major Repairs Reserve	31,085	-	31,085
Usable Capital Receipts	-	25,350	25,350
Grants	-	330,854	330,854
Supported Borrowing	3,512	61,951	65,463
Prudential Borrowing	-	66,573	66,573
Other Contributions	-	9,953	9,953
	35,145	543,792	578,937
<u>Forecast Expenditure</u>	-35,121	-543,483	-578,604
Surplus / shortfall (-) resources	24	309	333

8. Whilst the General Fund shows surplus resources of £0.33m at the end of the programme there still remains a shortage of capital resources for the period up to 2013/14.
9. The Prudential Code for Capital Finance in Local Authorities was introduced from April 2004 and the control moved away from resources available to affordability on the Council's revenue accounts. The prudential borrowing mainly results from acquiring vehicles and equipment (£22.744m) that would have previously been leased. There are projects in the capital programme, totalling £43.8m, which are to be financed from prudential borrowing. Where spend has been incurred in advance of specific resources being received then prudential borrowing is also utilised on a short term basis until the resource is received.

MINIMUM REVENUE PROVISION 2009-10

10. Since 2007-08 there have been specific regulations that set out the calculation of the minimum revenue provision (mrp) to be made to set aside to repay debt. These are mainly to ensure that authorities are making a sufficient revenue provision to repay debt on existing debt and prudential borrowing for new projects. These regulations made little impact on the Council as it has previously been making a voluntary revenue provision to repay debt on any prudential borrowing incurred since April 2004. For the General Fund the calculation is mainly based on a percentage (4%) of the capital financing requirement at the beginning of the year, together with adjustments required within the regulations and a depreciation provision for prudential borrowing. There is no requirement to make provision for debt repayment on the Housing Revenue Account, albeit a voluntary revenue provision can be made. The mrp for the General Fund is £7,812,138 and this is reduced for the 1992 grant commutation adjustment of £144,707 and the Adjustment A factor of £793,202, giving a total of £6,874,229.

The 1992 grant commutation adjustment is a variable adjustment allowable to the mrp each year and results from the government changing the basis on how they gave capital grants for house renovation. Prior to 1992 the process was to reimburse the Council for capital grant given to individuals over a twenty year period. To ensure that there was no additional cost to the revenue account Council's were required to reduce their revenue provision to repay debt. The requirement to reduce the revenue provision to repay debt is now optional, but if it is not adjusted then the costs to the revenue account would increase. The Adjustment A factor relates to regulations which changes the calculation of the mrp and effectively takes out the Housing Revenue Account element of the Capital Financing Requirement.

VOLUNTARY REVENUE PROVISION 2009-10

11. With the change in regulations mentioned in paragraph 10, there is now no need to make a voluntary revenue provision to repay debt on prudential borrowing. However, the option is still available should the Council wish to make enhanced provisions to repay debt.
12. The Statement of Accounts has been compiled on the basis that there is no voluntary revenue provision in 2009-10 and Audit and Governance Committee is asked to confirm the action taken.

PRUDENTIAL INDICATORS

13. The Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy requires that 'the local authority shall set and monitor against the specified prudential indicators for capital expenditure, external debt and treasury management in accordance with the due process to be followed, the matters required to be taken into account, affordability, prudence and in accordance with the definitions specified'.
14. Appendix B sets out the capital expenditure prudential indicators set by the Council for 2009-10 and compares them to the out-turn. The Capital Financing Requirement and the Ratio of Financing Costs to the Net Revenue Stream were within the limits set.
15. The total of capital expenditure for 2009-10 has exceeded the limit set. This is due to the inclusion of the Equal Pay settlement of £13.3m and the expenditure for the Barnfield Academies BSF projects of £28.9m not being included in the original programme set. The Academies have now been included following recent advice from the External Auditors. For the General Fund capital expenditure however, there is a significant variation in the limit set and the out-turn when the above two payments are not included. This was addressed when setting the 2010-2015 capital programme, but was mainly a result of the delay of the Luton and Dunstable Busway and the Luton Station Gateway projects.
16. Prudential indicators dealing with external debt and treasury management will be reported to the Executive in July 2010.
17. The Audit and Governance Committee is asked to note the prudential indicators.

OPTIONS

18. There is an option to finance expenditure in an alternative manner than shown on Appendix A by not utilising or not fully utilising grants, capital receipts, other contributions or capital reserves. This option is not recommended as this would leave unutilised capital resources on the balance sheet and would automatically increase the capital financing requirement at the year end. This would then increase the minimum revenue provision required for 2010-11.
19. The Council could opt to make a voluntary revenue provision to repay external debt (paragraphs 11-12) as set out in the report.

FINANCIAL IMPLICATIONS

20. Financial Implications are dealt with in the body of the report as agreed with the Chief Accountant and Head of Corporate Finance.

LEGAL IMPLICATIONS

21. Save for those set out above there are no further legal implications to this report and this has been agreed with Richard Stevens in Legal Services on 11 June 2010.

APPENDICES

22. Appendix A - Analysis of capital expenditure in the year 2009-10.
23. Appendix B – Prudential indicators 2009-10.

BACKGROUND PAPERS

Local Government Act 2003.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, 2006, 2007 and 2008.

Prudential Code For Capital Finance In Local Authorities.