

**COMMITTEE:**                      **AUDIT AND GOVERNANCE**

**DATE:**                              **21 JUNE 2011**

**SUBJECT:**                        **CAPITAL EXPENDITURE OUT-TURN 2010-11**

**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**

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**PURPOSE**

1. This report deals with the capital out-turn for 2010-11 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 using the capital reserve, major repairs reserve, usable capital receipts, supported borrowing, prudential borrowing, grants, PFI, other

contributions and finance leases in the amounts shown in the paragraph.

- (ii) Confirm the action taken in determining financing approvals of the 2010/11 expenditure as listed in Appendix A.
- (iii) Confirm the action taken in not making a voluntary revenue provision for additional debt repayment in 2010-11 (as explained in paragraphs 8-9), 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 10-14 and to refer to full Council for noting the fact that Prudential Indicator Ratio of Financing Costs to Net Revenue Stream has been exceeded in 2010/11.

### **RESOURCES**

3. The table below shows the capital resources available for 2010-11.

	<b>HRA</b>	<b>General Fund</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Resources brought forward	405	34,589	34,994
Capital Reserve / Revenue	-	5,317	5,317
Major Repairs Reserve	6,352	-	6,352
Usable Capital Receipts	-	2,449	2,449
Grants and Other Contributions	-	90,055	90,055
Supported Borrowing	1,756	8,654	10,410
Prudential Borrowing	-	14,026	14,026
	<b>8,513</b>	<b>155,090</b>	<b>163,603</b>

## **EXPENDITURE AND FINANCING 2010-11**

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.

	<b>HRA</b>	<b>General Fund</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>4.1 Expenditure</b>	<b>7,722,175</b>	<b>122,555,399</b>	<b>130,277,574</b>
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<b>4.2 Financed by:</b>			
Capital Reserve	-	7,895,877	7,895,877
Major Repairs Reserve	5,966,175	-	5,966,175
Usable Capital Receipts	-	1,416,639	1,416,639
Grants, PFI and Other Contributions	-	93,069,140	93,069,140
Supported Borrowing	1,756,000	8,653,751	10,409,751
Prudential Borrowing	-	11,519,992	11,519,992
PFI	-	24,825,000	24,825,000
	<b>7,722,175</b>	<b>147,380,399</b>	<b>155,102,574</b>

## **FINANCING APPROVALS**

5. The expenditure detailed in Appendix A was incurred in accordance with Standing Order 101.4. Capital programme monitoring reports post April 2010 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 2011 identified that there was an estimated rephasing of £12.060m of General Fund expenditure to 2011-12, and information was provided on the individual projects that contributed. The out-turn for 2011-12 was £147.380m. This resulted in a further £3m of rephasing into 2011-12 but also includes an additional £2.5m redundancy cost and redundancy pensions strain expenditure, a reversal of £1.5m from the Equal pay provision from 2010/11 and an addition of Challney Girls PFI Scheme of £24.8m 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 2011 that will reflect the implications for any rephasing as a result of the out-turn for 2010-11.

#### **MINIMUM REVENUE PROVISION 2010-11**

7. 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.

#### **VOLUNTARY REVENUE PROVISION 2010-11**

8. With the change in regulations mentioned in paragraph 7, 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.
9. The Statement of Accounts has been compiled on the basis that there is no voluntary revenue provision in 2010-11 and Audit and Governance Committee is asked to confirm the action taken.

#### **PRUDENTIAL INDICATORS**

10. 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'.
11. Appendix B sets out the capital expenditure prudential indicators set by the Council for 2010-11 and compares them to the out-turn. The Capital Financing Requirement was within the limits set. The Ratio of Financing Costs to the Net Revenue Stream was exceeded due to additional impairment costs of £54.9m of the Council dwellings.
12. The total of capital expenditure for 2010-11 is within the limit set, despite the inclusion of the capitalisation of redundancy costs and redundancy pension strain of £2.5m and the addition of the Challney Girls School PFI scheme of £24.8m and the £1.5m reversal of the Equal Pay provision made in 2009-10.
13. Prudential indicators dealing with external debt and treasury management will be reported to the Executive in July 2011.
14. The Audit and Governance Committee is asked to note the prudential indicators and to refer to full Council for noting the fact that the Prudential Indicator Ratio of Financing Costs to Net Revenue Stream has been exceeded in 2010/11.

### **OPTIONS**

15. 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 2011-12.
16. 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**

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

#### **LEGAL IMPLICATIONS**

18. 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 14 June 2011.

#### **APPENDIX**

19. Appendix A - Analysis of capital expenditure in the year 2010-11.
20. Appendix B – Prudential indicators 2010-11.

#### **BACKGROUND PAPERS**

21. Local Government Act 2003.
22. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, 2006, 2007 and 2008.
23. Prudential Code For Capital Finance In Local Authorities.