

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 25 JUNE 2008

SUBJECT: CAPITAL EXPENDITURE OUT-TURN 2007-08

REPORT BY: HEAD OF CORPORATE FINANCE

CONTACT OFFICER: J. N. GLOVER 01582 546112

IMPLICATIONS:

LEGAL		COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING		OTHER

WARDS AFFECTED: NONE

PURPOSE

1. This report deals with the capital out-turn for 2007-08 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 by the Head of Corporate Finance in financing the Council's capital expenditure, as set out at paragraph 4.2**
 - (ii) **Confirm the action taken by the Head of Corporate Finance in determining financing approvals of the 2007/08 expenditure as stated in paragraph 5.**

(iii) Confirm the action taken by the Head of Corporate Finance in not making a voluntary revenue provision for additional debt repayment in 2007-08 (as explained at 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 at paragraphs 13-17

RESOURCES

3. The table below shows the capital resources available for 2007-08.

	HRA	General	Total
		Fund	
	£000	£000	£000
Resources brought forward	789	3,711	4,500
Capital Reserve / Revenue	1,902	1,110	3,012
Major Repairs Reserve	6,020	-	6,020
Usable Capital Receipts	-	3,460	3,460
Grants	-	24,329	24,329
Supported Borrowing	1,756	4,901	6,657
Prudential Borrowing	-	5,621	5,621
Contributions	-	3,965	3,965
	10,467	47,097	57,564

EXPENDITURE AND FINANCING 2007- 08

4. The Council has previously authorised me (Council Minute 31/07) 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	Total
		Fund	
	£	£	£
4.1 Expenditure	9,076,880	42,766,282	51,843,162
4.2 Financed by:			
Capital Reserve	1,301,406	1,109,230	2,410,636
Major Repairs Reserve	6,019,474	-	6,019,474
Usable Capital Receipts	-	3,459,856	3,459,856
Grants	-	22,259,873	22,259,873
Supported Borrowing	1,756,000	4,901,000	6,657,000
Prudential Borrowing	-	5,715,103	5,715,103
Other Contributions	-	5,321,220	5,321,220
	9,076,880	42,766,282	51,843,162

FINANCING APPROVALS

5. The expenditure detailed in Appendix A was incurred in accordance with Standing Order 101.4. Capital programme monitoring reports post April 2008 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 2008 identified that there was an estimated rephasing of £4.253m of General Fund expenditure to 2008-09, and information was provided on the individual projects that contributed. The out-turn for 2007-08, at £42.766m, resulted in a further £2.1m of rephasing in to 2008-09. HRA expenditure was within £0.1m of the projection. There will be a Capital

Expenditure Monitoring Report submitted to the Executive in August 2008 that will reflect the implications for the out-turn for 2007-08.

RESOURCES AVAILABLE / UTILISATION

7. In the following statement there is some £551m 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 £359m are extremely high. With these elements of uncertainty the forecasts should be treated with caution. For the period 1 April 2008 to 31 March 2013 (including expenditure in 2013-14 on continuing projects) estimated resources / expenditure can be summarised as :-

	HRA	General	Total
		Fund	
	£000	£000	£000
<u>Forecast Capital Resources</u>			
Balance brought forward	1, 390	4,331	5,721
Capital Reserve / Revenue	-	31,692	31,692
Major Repairs Reserve	29,675	-	29,675
Usable Capital Receipts	-	42,339	42,339
Grants	-	337,250	337,250
Supported Borrowing	8,780	53,727	62,507
Prudential Borrowing	-	20,246	20,246
Other Contributions	-	21,992	21,992
	39,845	511,577	551,422
<u>Forecast Expenditure</u>	-39,304	-503,147	-542,451
Surplus / shortfall (-) resources	541	8,430	8,971

8. Whilst the General Fund shows surplus resources of £8.43m there still remains a shortage of capital resources for the period up to 2009/10. Members need to be aware that there is still £23.2m of the capital receipts target to be received that was set to bridge the gap between mainstream resources and spending priorities over the period to 2012-13.

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 (£22.225m) that would have previously been leased. There are projects in the capital programme, totalling £1.6m, which are to be financed from prudential borrowing as they will improve the Council's financial position on an ongoing basis. Prudential borrowing is also utilised where spend has been incurred in advance of the resource being received.

MINIMUM REVENUE PROVISION 2007-08

10. There have been amended regulations for 2007-08 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. The new regulations have had little impact for this 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 £6,240,345 and this is reduced for the 1992 grant commutation adjustment of £263,652 and the Adjustment A factor of £793,202, giving a total of £5,183,491.

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 2007-08

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 2007-08 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 (Council minute 31/07) for 2007-08 and compares them to the out-turn. The total of capital expenditure for 2007-08 was within the limit set. For the General Fund capital expenditure there is a significant variation in the limit set and the out-turn. This was addressed when setting the 2008-2013 capital programme, but resulted mainly from the major transport projects where the capital resource was not forthcoming in 2007-08.
15. The Capital Financing Requirement was within the limit set. However, the individual limit for the HRA was exceeded by £13k. The Ratio of Financing Costs to the Net Revenue Stream were within the limit set.
16. Prudential indicators dealing with external debt and treasury management will be reported to the Executive in July 2008.
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 2008-09.

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 2 June 2008.

APPENDICES

22. Appendix A - Analysis of capital expenditure in the year 2007-08.
23. Appendix B – Prudential indicators 2007-08.

BACKGROUND PAPERS

24. Local Government Act 2003.
25. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, 2006, 2007 and 2008.
26. Prudential Code For Capital Finance In Local Authorities.