

# CAPITAL PROGRAMME MONITORING 2004/05

TO 30TH SEPTEMBER, 2004

## PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

25TH NOVEMBER, 2004

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### Wards Affected

County-wide

### Purpose

To note the current position of the Capital Programme forecast for 2004/05, including a review of Prudential Borrowing and the current position regarding Prudential Indicators following the introduction of the Prudential Code.

### Key Decision

This is not a Key Decision.

### Recommendation

**THAT the position be noted.**

### Reasons

Report for noting only.

### Considerations

1. This report is broken down into two sections. The first section reports on the current position of the capital programme and prudential borrowing. The second section reports on the current position of Prudential Indicators.

### Capital Programme Monitoring

2. This is the second round of the 2004/05 capital monitoring process. The purpose of this monitoring exercise is to update the capital budget position, as at 30th September, reporting new funding allocations and to manage any slippages or overspends.

### Overview

3. The revised forecast for 2004/05 as at 30th September totals £33,003,000, an increase of £82,000 from the budget reported at the end of July. Explanations of these changes are detailed in the body of this report. The programme is funded as detailed in Appendix 1.

4. Cabinet allocated Prudential Borrowing of £4,741,000 to various capital schemes on the 22nd July. Due to the late allocation of funding at least £262,000 slippage on schemes has been identified; the current forecast for Prudential Borrowing for 2004/05 is therefore £4,479,000. It is expected that further amounts of the 2004/05 allocation may slip into 2005/06 but as this funding is unconditional no resources will be lost. Only 23% of the revised forecast of Prudential Borrowing has been spent to date, further details on specific schemes are given in the body of this report.
5. Each capital project has a spend profile, expected spend in the first six months was 37% of the revised forecast. Actual spend in the first six months at £10,920,000 was 33% of the revised forecast, 4% less than expected. Actual spend reported at this time last year was 27%. A summary of the expenditure for each service area is set out in Appendix 2.
6. Set out in Appendix 3 is a list of all capital schemes with a budget in excess of £500,000. The detailed capital programme listing all capital schemes can be found on the Intranet, on the Information Library, Treasurers, Financial Policy.
7. Set out in Appendix 4 is a list of capital receipts received and expected in 2004/05.

## **Capital Programme Areas**

### **8. Education**

The capital budget for this area has decreased in this round of capital monitoring by £374,000. The capital spend on the Kingstone High Sports Hall, funded by capital grant, has been re-profiled over three years and an additional borrowing approval (SCE(R)) allocation of £100,000 has been awarded towards the capital project at Whitecross High School. Capital spend is expected to accelerate towards the end of the financial year.

### **9. Social Care**

The budget for this area has decreased by £19,000 due to the combination of the following factors. DfES has awarded a capital grant of £21,000 towards the implementation of the Integrated Children's System. Part of the ICT Development budget relates to Strategic Housing, this budget has therefore been moved.

### **10. Property**

The budget for this area has increased by £24,000 due to an increase in the Lower Thorn Farm at Glewstone new building and slurry system capital scheme to be funded by a DEFRA grant. The provision of a Salt barn by utilisation of a long-term lease at Thorn Business Park requires credit cover as a requirement of accounting regulations and £390,000 has been set aside from the usable capital receipts reserve.

### **11. Policy and Finance**

The budget for this area has risen by £55,000 due to funding being secured for the connection of Ledbury CCTV to the Herefordshire CCTV Control Room. The project is to be funded by contributions from West Mercia Constabulary, Advantage West Midlands and Ledbury Town Council.

## 12. **ICT Services**

The budget for this area has reported no changes in this round of capital monitoring. The Network Enhancement, Continuity and Disaster Recovery capital schemes should start spending in December.

## 13. **Environment General**

The budget for this area has decreased by £285,000. This is due to the Roman Road capital scheme not being eligible for Objective 2 grant funding. Other budget changes represent an additional capital grant of £30,000 being awarded for Cycle Network development at Marlbrook Road.

## 14. **Social Development**

A Cabinet Member report was submitted on 5th October detailing the current position on the North Herefordshire swimming pool capital budget. Delays have been encountered which will result in expected additional costs being incurred. Costs are being kept under constant scrutiny and the build programme is being kept under review. The budget has not been changed in this round of capital monitoring.

## 15. **Economic Development**

The budget for this area has increased by £516,000 due to additional costs being identified relating to the Leominster Industrial Estate Access Road capital scheme. A further report detailing the position and associated funding will be presented to Cabinet in due course.

## 16. **Strategic Housing**

The forecast spend for this area has increased due to the inclusion of the ICT Development budget mentioned earlier and the completion of an option to purchase Barton Yard land which is being funded through the Corporate Capital Receipts Reserve.

## **Prudential Indicators**

17. As Cabinet will recall from previous reports the Prudential Code applies from 2004/05 onwards. The key objectives of the Code are to ensure that capital investment plans and treasury management decisions are made in a manner that supports prudence, affordability and sustainability.
18. Cabinet endorsed a range of Prudential Indicators (PIs) on 19 February 2004 and these are required to be monitored on a regular basis. This will be achieved by enhancing the existing Capital Programme monitoring process to include specific PI information. Any significant deviations from expectations are to be highlighted and reported accordingly.
19. The Prudential Code recommends the PIs set out below. The framework of PIs covers Capital Expenditure and Treasury Management and include the following:
  1. Actual and estimated capital expenditure for the current and future years (Appendix 5)
  2. Ratio of financing costs to net revenue stream (Appendix 6)
  3. Capital Financing Requirement (Appendix 7)

4. Authorised limit for External Debt (Appendix 8)
  5. Operational boundary for External Debt (Appendix 9)
  6. Council Tax implications of the incremental effect of capital decisions (Appendix 10)
  7. Treasury Management Indicators (Appendix 11)
20. No issues of concern are emerging.

## **Conclusion**

Capital programme actual spend to date, although an improvement on the position reported at this time last year, is slower than expected. The monitoring arrangements in place continue to identify improvements in the overall management of the capital programme. Additional costs are emerging on a number of schemes. Prudential Indicators are being monitored as required by the Prudential Code and are currently being maintained within the original parameters set by Council. The position for 2005/06 onwards will be subject to further consideration as part of the revenue budget setting process.

## **Alternative Options**

There are no alternative options.

## **Consultees**

Not applicable.

## **Risk Management**

Capital Programme and Prudential Indicator monitoring is an integral part of risk management. Potential over and under spends are highlighted at the earliest opportunity so adjustments can be made accordingly.

## **Background Papers**

None identified.

**APPENDIX 1**

**FUNDING OF REVISED 2004/05 CAPITAL PROGRAMME**

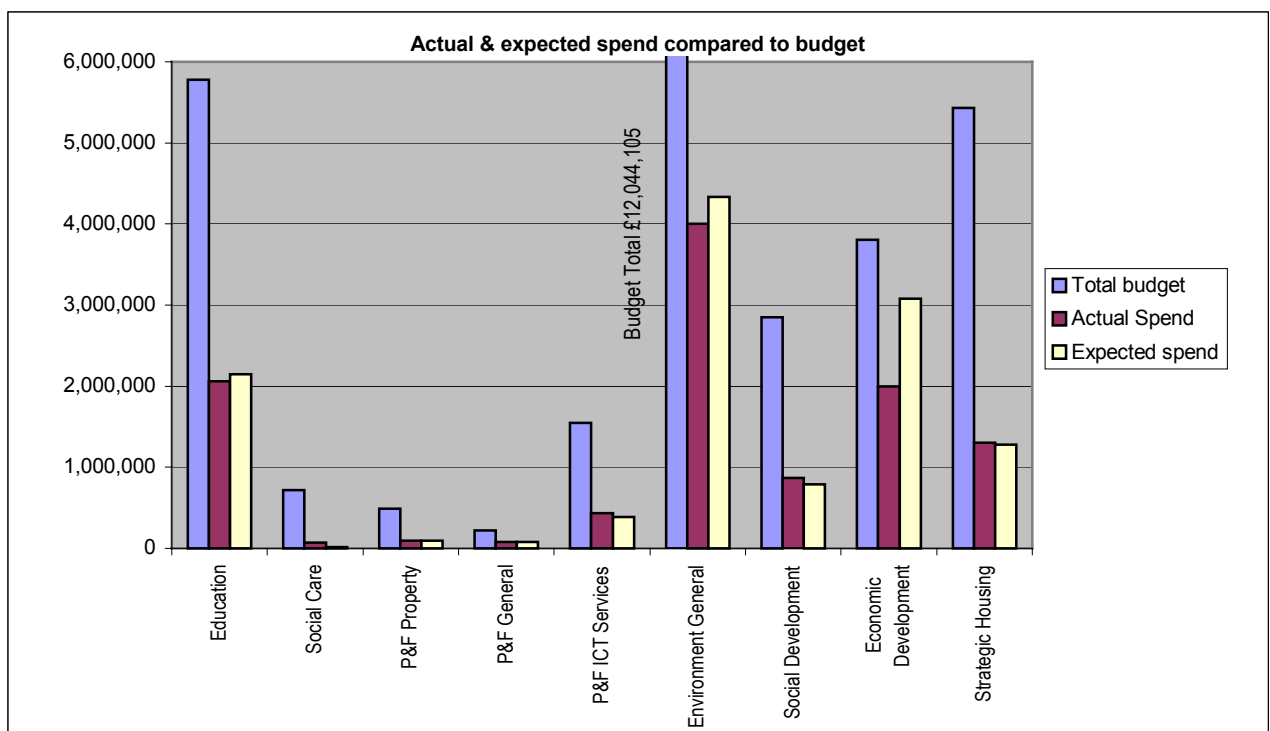
<b>Capital Programme Area</b>	<b>2004/05 Revised Forecast 30/09/04</b>	<b>SCE(R)</b>	<b>Prudential Borrowing</b>	<b>LPSA UCA</b>	<b>Grants</b>	<b>Revenue Contribution</b>	<b>Capital Receipts Reserves</b>	<b>Unfunded</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Education	5,814	3,311	-	-	2,145	152	206	-
Social Care	720	91	200	-	118	-	311	-
P&F – Property	503	-	300	-	25	6	172	-
P&F – General	265	-	4	-	60	100	90	11
P&F – ICT Services	1,550	-	1,020	126	288	-	116	-
Environment General	12,044	11,072	395	-	577	-	-	-
Social Development	2,867	-	2,050	-	667	-	150	-
Economic Development	3,805	-	310	-	1,638	-	1,647	210
Strategic Housing	5,435	2,055	200	-	585	-	2,595	-
<b>Total Revised Forecast</b>	<b>33,003</b>	<b>16,529</b>	<b>4,479</b>	<b>126</b>	<b>6,103</b>	<b>258</b>	<b>5,287</b>	<b>211</b>
<b>Original Budget</b>	<b>34,938</b>	<b>16,483</b>	<b>5,000</b>	<b>-</b>	<b>8,585</b>	<b>-</b>	<b>4,870</b>	<b>-</b>
<b>Change from original budget</b>	<b>(1,935)</b>	<b>46</b>	<b>(521)</b>	<b>126</b>	<b>(2,482)</b>	<b>258</b>	<b>417</b>	<b>221</b>

<i>Reported to date</i>								
<i>Original Budget</i>	34,938	16,483	5,000	-	8,585	-	4,870	-
<i>July Forecast</i>	32,921	16,430	4,511	126	6,479	247	5,055	73
<i>September Forecast</i>	33,003	16,529	4,479	126	6,103	258	5,287	211

## APPENDIX 2

### CAPITAL EXPENDITURE BY PROGRAMME AREA

	Outturn	Original Budget	Revised 2004/05 Forecast as at 30/09/04	Change from previous forecast as at 31/07/04	Actual spend at 30/09/04	Actual spend as a % of the revised forecast	Expected spend as a % of the revised forecast
Programme area	2003/04	2004/05	2004/05	2004/05	2004/05	2004/05	2004/05
	£'000	£'000	£'000	£'000	£'000	%	%
Education	8,248	7,014	5,814	(374)	2,062	36%	37%
Social Care	413	132	720	(19)	72	10%	2%
P&F – Property	2,142	402	503	24	97	19%	19%
P&F – General	924	25	265	55	82	31%	37%
P&F – ICT Services	882	127	1,550	1	435	28%	25%
Environment General	10,879	11,846	12,044	(285)	3,771	31%	36%
Social Development	460	2,467	2,867	(26)	868	30%	28%
Economic Development	4,157	4,092	3,805	516	2,229	59%	81%
Strategic Housing	4,929	5,633	5,435	190	1,304	24%	24%
Prudential Borrowing to be allocated	-	3,200	-	-	-	-	-
<b>Total</b>	<b>33,034</b>	<b>34,938</b>	<b>33,003</b>	<b>82</b>	<b>10,920</b>	<b>33%</b>	<b>37%</b>



## APPENDIX 3

### MAIN CAPITAL SCHEMES OF REVISED 2004/05 CAPITAL PROGRAMME

Capital Programme Area	Schemes with a Revised Forecast >£500,000
	£'000
<b>Education schemes:</b>	
Site Acquisitions	680
John Kyrle High – Sixth Form Extension	506
New Deal for Schools Condition Improvement Works	1,200
<b>ICT Services schemes:</b>	
ICT The Golden Thread Network Enhancement	770
<b>Environment General schemes:</b>	
Roman Road Improvements	3,270
Rural low floor bus project	500
Capitalised maintenance of principal roads	1,200
Capitalised maintenance of non-principal roads	3,272
Footways	550
Capitalised assessment & strength of bridges	500
<b>Social Development schemes:</b>	
Replacement Swimming Pool for North Herefordshire	1,709
Friar Street Museum Resource and Learning Centre	555
<b>Economic Development schemes:</b>	
Leominster Industrial Estate Access Road	3,049
<b>Strategic Housing schemes:</b>	
Social Housing Grants	3,100
<i>Other schemes with a revised forecast of less than £500,000</i>	<i>12,142</i>
<b>Revised Forecast</b>	<b>33,003</b>

APPENDIX 4

CAPITAL RECEIPTS FOR 2004/05

Sale Detail	Directorate Share	Directorate Share	Corporate Share	Total receipt
		£'000	£'000	£'000
<b>Received</b>				
The Old Goods Shed, Ross on Wye	50% Property	154	154	308
Right to Buy Clawbacks, Discounts and Improvement Grant Repayments to date	100% Housing	105	-	105
<b>Sub Total</b>		<b>259</b>	<b>154</b>	<b>413</b>
<b>Anticipated</b>				
Various	100% Housing	1,660	-	1,660
Various	100% Education	120	-	120
Various	50% Property	25	25	50
Various	50% Social Development	8	7	15
Various	100% Corporate	-	800	800
<b>Sub Total</b>		<b>1,813</b>	<b>832</b>	<b>2,645</b>
<b>Total</b>		<b>2,072</b>	<b>986</b>	<b>3,058</b>



## **APPENDIX 5**

### **ACTUAL AND ESTIMATED CAPITAL EXPENDITURE**

Capital Monitoring information is set out in the first part of this report. A forecast of future years capital budgets and funding will be provided with future monitoring reports. Such forecasts will be heavily dependant upon the results of the Financial Settlement and level of any Prudential Borrowing considered affordable. A separate Cabinet report discussing strategic capital issues is being produced.

## APPENDIX 6

### RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The net revenue stream is the budget amount to be met from Formula Grant and Council Tax income (the budget requirement). The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs. The Ratio has reduced in 2005/06 and 2006/07 mainly due to a reduction in the expected capital financing costs due to a revision of expected interest rates.

<b>Ratio of financing costs to net revenue stream</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net Revenue Stream	169,444	175,320	184,239	194,241
Capital Financing Requirement	5,557	6,020	8,245	9,718
Revised 30/9/04	3.28%	3.43%	4.48%	5.00%
Original Indicator	3.28%	4.12%	4.71%	5.35%

## APPENDIX 7

### CAPITAL FINANCING REQUIREMENT

This indicator represents the Authorities underlying need to borrow for a capital purpose. The indicator has changed due to a reduced forecast Prudential Borrowing requirement in 2004/05. Future years requirements includes a potential £5 million Prudential Borrowing per year.

<b>Capital Financing Requirement</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Revised 30/9/04	78,090	94,292	110,463	125,938
Original Indicator	78,090	94,892	111,063	126,538

## APPENDIX 8

### AUTHORISED LIMIT FOR EXTERNAL DEBT

The Authorised Limit for external debt represents the absolute maximum level of debt that may be incurred. This limit would only be reached in exceptional circumstances. There is no change to this indicator and the limits have not been exceeded.

	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	105,000	119,000	142,000	163,000
Other Long Term Liabilities	1,500	3,000	3,000	3,000
<b>Total</b>	<b>106,500</b>	<b>122,000</b>	<b>145,000</b>	<b>166,000</b>

## APPENDIX 9

### OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

The Operational Boundary for external debt is the prudent expectation of the maximum level of external debt. There is no change to this indicator and the limits have not been exceeded.

	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	63,000	73,500	94,500	115,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
<b>Total</b>	<b>64,500</b>	<b>75,000</b>	<b>96,000</b>	<b>117,000</b>

## APPENDIX 10

### COUNCIL TAX IMPLICATIONS OF THE INCREMENTAL EFFECT OF CAPITAL DECISIONS

This indicator represents the increases in Council Tax resulting from unsupported Prudential Borrowing. Separate indicators were stated originally based on different levels of potential borrowing. The revised indicators below are based on the actual level of Prudential Borrowing allocations made by Cabinet on 22 July 2004.

Increase in council tax (Band D, per annum):	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	£ p	£ p	£ p	£ p
<b>Original</b>				
Position if £5,000,000 Prudential Borrowing is taken for 2004/05.	N/A	3.75	7.06	7.34
Position if £5,000,000 Prudential Borrowing is taken for 2004/05 and subsequent years.	N/A	3.75	10.52	17.28
<b>Revised 30/09/04</b>				
£4,741,000 Prudential Borrowing allocated for 2004/05, and assuming Prudential Borrowing only taken for the future years commitments already approved (£2,455,000 for 2005/06 and £813,000 for 2006/07)	N/A	3.56	8.26	10.34
£4,741,000 Prudential Borrowing allocated for 2004/05, and assuming £5,000,000 Prudential Borrowing is taken for 2005/06 and subsequent years.	N/A	3.56	10.17	16.93

## APPENDIX 11

### TREASURY MANAGEMENT INDICATORS

These are specific indicators, which relate to the management of the Treasury Management process. There is no change to these indicators and the limits have not been exceeded.

	2003/04	2004/05	2005/06	2006/07
<b>Upper Limit for Fixed Interest Rate Exposure</b>				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
<b>Upper Limit for Variable Interest Rate Exposure</b>				
Net principal re variable rate borrowing / investments	25%	50%	50%	50%
<b>Maturity Structure of new fixed rate borrowing during 2004/05</b>	<b>Upper Limit</b>	<b>Lower Limit</b>		
Under 12 Months	30%	0%		
12 months and within 24 months	60%	0%		
24 months and within 5 years	90%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	20%		
<b>Upper Limit for total principal sums invested for over 364 days</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
(per maturity date)	7,000	10,000	10,000	10,000