EXE 18 November 2010
Item 10

CAPITAL PROGRAMME 10/11 – QUARTER 2 BUDGET MONITORING REPORT

EXECUTIVE MEMBER:	Councillor Elaine Woodburn
LEAD OFFICER:	Joanne Wagstaffe – Director of Resources and Transformation
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WHY HAS THIS REPORT COME TO THE EXECUTIVE?
Key Decision
To inform Executive of the summary budget position for the Capital Programme 2010/11 at 30 September 2010 and a forecast outturn position at year end, at this mid point.

RECOMMENDATION:
That Executive**;**
(i) Confirm the revised gross capital budget of £5,727,689 (para 2.2)
(ii) Confirm action to be taken if sale of land at Kells does not proceed this financial year (para 4.3)

1. INTRODUCTION

1.1. The monitoring of the capital programme is undertaken monthly and a report to the Executive is presented at the end of each quarter. This report provides the monitoring position at the end of the second quarter of 2010/11 and provides a forecast of expenditure at the year-end. The report provides narrative in relation to exceptions.

1.2. The budget monitoring process involves Accountancy providing details on financial spend and commitments to date, as recorded on the Council's financial ledger. Project managers are required to review this information and provide a forecast to the financial year end. The robustness and accuracy of the budget forecasts, improves as the year proceeds, as assumptions underpinning the programme when originally prepared, crystallise, through experience and current information.

2.0 REVISIONS TO THE CAPITAL PROGRAMME 2010/11

2.1 Members will recall at quarter 1 the Capital Programme had a gross expenditure budget of £7,912,007

2.2 Further adjustments to the 2010/11 capital programme have been identified and these are detailed in Table 1 below: Members are asked to approve changes, which total a net reduction of £2,184,318, bringing the gross expenditure budget to £5,727,689.

Table 1: Reconciliation of Capital Programme 2010/11 to quarter 2 2010/11 monitoring

	£	Notes
Gross expenditure budget approved Council 2 March 2010	**7,600,148**	
Adjustments by RPWG 21 April	289,400	
Carried forwards approved by Executive 29 June 2010	463,548	
Reduction in spend in 2009/10	-181,319	
Reduction as not eligible for capital funding	-48,000	
Gross expenditure budget approved Executive 29 June 2010	**8,123,777**	
Changes approved Q1	-211,770	
Gross expenditure budget per Q1 10/11 monitoring report	**7,912,007**	
Changes already approved:		
Copeland Centre Reception	100,000	September Executive (see para 3.5.5) Note Income increased also.
Millom Iron Works	43,026	May Executive (see para 3.5.7) this will also result in an increase of external funding budget of £43,206
Changes for which approval is sought:		
Albion Square	(2,000,000)	Re profile of spend into 2011/12 (para 3.5.12)
Copeland Centre Reception	(125,000)	Reprofile spend into 2011/12 (para 3.5.5)
New Cremator	(83,000)	HMCR decision (see para 3.5.11)
Waste Route Optimisation	(32,500)	This budget to return to UCRR (see para 3.5.4)
North Shore	156	Additional cost funded through contribution from revenue (see para 3.5.6)
CRM	(56,000)	Forecast completion under budget (see para 3.5.13)
Website Development	(18,000)	Forecast completion under budget (see para 3.5.13)
Mount Pleasant	(13,000)	Project reached practical completion – retention due Aug 2011 re profile budget in 2011/12 (para 3.5.9)
MIS and Data Capture plus one minus other		
	5,727,689	

EXPENDITURE TO DATE AND FORECAST YEAR END POSITION

3.1 The revised capital programme for 2010/11 is £5,727,689.

3.2 The forecast position at 31st March 2011 is expenditure of £5,262,571 compared to the revised capital programme. This results in a forecast variance against expenditure budget of £465,118, as detailed in Table 2 below. The forecast income position as at 31st March 2011 is £2,573,201 against a budget of £2,573,201. Explanations of key variances are set out in paragraphs 3.6 and 3.7.

Table 2 Spend to date and Forecast for year as at quarter 2 2010/11

	Gross expenditure budget	**Spend to date**	**Forecast period 7-12**	**Total forecast gross spend**	**Variance**
Non Housing	3,742,042	894,928	2,837,113	3,732,042	(10,000)
Housing	1,985,647	574,298	956,231	1,530,529	(455,118)
Total (as per Table 1)	**5,727,689**	**1,469,227**	**3,793,344**	**5,262,571**	**(465,118)**

3.3 Expenditure to 30 September 2010 was £1,469k. This represents approximately 25.65% of the total revised budget for the year. The actual spend plus forecast under spend in this year total 33.76% of budget half way through the year, but a number of larger schemes are yet to commence material spend (in this year) including Copeland Centre, Revenues and Benefits , Cremator and Rottington Beck.

3.4 Members will be pleased to note that £2,573,201 (44.93%) of the capital programme is funded externally and this represents value for money in relation to the match funding.

3.5 **NON-HOUSING**

3.5.1 The forecast gross expenditure position at 30 September 2010 for the non-housing element of the 2010/11 capital programme is £3,732,042 against the revised budget of £3,742,042. This represents an under spend of £10,000 (0.25%).

3.5.2 Gross income is forecast to be as budget at £1,691,201.

3.5.3 The net variance against budget for the non-housing schemes is therefore forecast to be £10,000 under spend
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3.5.4 Members will recall from the quarter 1 report, the Waste Management Team were looking into more traditional, less technologically reliant methods of measuring and monitoring productivity to enable the revision of routes. As a result of the initial data collected the decision has been made to withdraw the original software project - 'Waste Route Optimisation using GIS' from the capital programme. This scheme is to be replaced by the continuation of data collection and manual mapping of routes, which will be absorbed within normal duties. This will therefore be funded by existing revenue budgets and the £32,500 will be returned to the Useable Capital Receipts Reserve (UCRR) for use on future capital schemes. However due to a current lack of staffing resource (through sickness and secondment) the team do not currently have the capacity to absorb this additional work.

3.5.5 Executive at its meeting on September approved the PID for the redevelopment of the Copeland Centre Reception. This PID included works required by Cumbria County Council and a capital contribution in the sum of £100,000 from them. As work has yet to commence on this scheme it is unlikely that the budget will be fully spent in this financial year (although the project will be fully committed to). At this early stage it is difficult to forecast how much actual spend will take place by 31 March 2011 so an arbitrary split of 50% spend in this year and 50% next year has resulted in the request to re profile £125k of budget into 2011/12. Members will receive an update on the scheme, its progress and forecast spend in quarter 3 when this profile may be revised.

3.5.6 The single transaction to convey a property, in order to discharge legal liabilities that the Council owed to landowners adjacent to North shore, completed on 16 August. The costs exceeded the budget by £156 (less than 0.5%) bringing total spend to £289,556. This additional cost will be met through a contribution from revenue (from the revenue budget approved by Council in connection with this project, on 13 April).

3.5.7 Executive approved at its meeting in May the Millom Iron Works project, which involves acting as the accountable body for a grant made to 'The Friends Group' to enhance land owned by Copeland The project involves capital (£43,026) and revenue costs (£8,250) which will be funded by external funding (Big Lottery - Changing spaces £42,026 capital, £4,900 revenue, £2,000 revenue from Cumbria County Council, £1,000 capital from Amphibian and Reptile trust) with.CBC making an 'in kind' revenue contribution of £1,350. The project is expected to complete in quarter 3.

3.5.8 Members will recall from quarter 1 report the implications of The Floods and Water Management Act were to be reviewed by Legal to ascertain if this changed the Council's obligations for the drains that were not adopted by United Utilities, at the time of the housing stock transfer. This review found:

'To date the Government has consulted on draft regulations proposing the transfer of un-adopted sewers and drains which drain into the adopted public sewerage system from a private owner to the statutory undertaker. Proposals apply to residential and commercial properties. The consultation closed on the 7th October. DEFRA will now hold a series of workshops on the way forward and proposed regulations. The draft regulations are dated blank 2011 so they do not expect the regulations to be made until next year. The intended transfer date is the 1st October 2011. Until that date we remain responsible.'

It may be that this date will be deferred as the implications of any change could increase the cost of water charges.

3.5.9 Both the Civic Quarter and Mount Pleasant schemes have reached practical completion, however these projects are still within their 12 month retention period for defects, with Civic Quarter's being due for final payment in January 2011. As Mount Pleasant retention will not be due until August 2011, table 1 on page 2 shows a request to re profile this expenditure - £13k into 2011/12.

3.5.10 Members will recall the 'cemeteries and playgrounds' project is currently being reviewed, to clarify and prioritise what works need to be done and at what cost, in these areas. This review and subsequent report are not yet complete and it is expected that the report will be presented to Executive in December. Appendix B currently shows an expected initial under spend of £10k against budget (as in quarter 1) with the outcome of the decisions made at the meeting to which the report is presented being fully reflected in quarter 3 monitoring.

3.5.11 Confirmation has been received from HMRC that Copeland is able to disregard the expenditure incurred on the replacement of the cremators for 2010/11 when performing its partial exemption calculation. This should ensure that Copeland remains under the 5% threshold set by HMRC and therefore will not incur any additional costs (in the form of irrecoverable VAT), the possibility of which was reported to Members in both quarter 1 Revenue and Capital reports. For the capital programme this means a return of £83k to the Useable Capital Receipts Reserve (UCRR) which can be used to fund a future capital project for the Council. It also eliminates the need for additional revenue spending in connection with the repayment of Vat already claimed.

3.5.12 The abolishment of the NWDA has inevitably resulted in uncertainty and caused delays for the Albion Square project. It is unlikely that the £2m 'schemes under development' budget will be utilised in this financial year and therefore Members are asked to approve to re profile this budget into 2011/12. There is potential to overspend on the existing brought forward budget for Albion Square, in connection with CPO work, but due to the delays this is unlikely to be in this financial year. Members will be advised of the position as it becomes clearer.

3.5.13 The two projects CRM and Website development are due to complete this year. Due to prudent project management both projects are due to complete all the required works at less than budget. This reduction of £74k (CRM £56k and Website £18k) on 2010/11 budget will be returned to the Useable Capital Receipts Reserve(UCRR) for use on future capital projects.

Potential new schemes in 2010/11

3.5.14 Copeland implemented Total Finance in April 2007 and purchased a licence with Consilium for five years, which ran from September 2006 through to September 2011 at a cost of £52k (will be uplifted to £55k at date of original renewal). The opportunity has arose to convert from a fixed term licence to a perpetual licence at the cost of £35k, but this must be committed to by 31 December 2010. Members will be updated, when this issue has been fully considered.

3.5.15 The GIS upgrade is on the capital programme at £10k showing a forecast spend to budget. It is anticipated that a bid for further monies in connection with this project will be made in year, but at the date of writing this report the final details are not known.

3.5.16 The crematorium is seeking to extend the car park, but the detailed location and size has not yet been decided upon. The sinking fund established for this purpose has a current balance in excess of £100k which is sufficient to commence the project and continues to be funded by a contribution of £10 per cremation. Whilst the funding of the actual car park construction is in place, as cremations are an exempt supply for VAT purposes, any works carried out in connection with the service will be included in the partial exemption calculation. Under its partial exemption scheme the Council can claim all its VAT back on its ordinary activities (including VAT relating to exempt activities) provided the exempt element does not exceed a 5% threshold set by HMRC. If this threshold is breached then all VAT relating to exempt activities becomes repayable. i.e. the VAT on the construction of the car park must go into the calculation. The inclusion of this project in future years may push the exempt VAT above the 5% threshold set by HMRC (depending upon cost

3.6 Housing

3.6.1 The forecast gross expenditure position at 30 September 2010 for the housing element of the 2010/11 capital programme is £1,530k against a budget of £1,985k. This represents an under spend of £455k (23%), which is the result of an inevitable delay between approval and expenditure, the majority of which is incurred at completion.

3.6.2 The total housing budget for 2010/11 is £1,985k. This includes £665k relating to works committed to but not paid for in 2009/10 for DFGs and home renewals.
This leaves an 'in year' budget of £1,320k. Of this £10k relates to the retention on Basket Road project which completed last year, £900k has been allocated to DFG (a statutory duty) with the remaining £410k allocated to Home renewal loans (a power) .

3.6.3 Since the approval of the revised Home Assistance Policy in August, loans have been and continue to be awarded to householders for the elimination of category one hazards. To date, this year £290k of £410k budget allocation has been committed. It is expected that this budget will be fully committed by year end.

3.6.4 DFGs of £357k have been awarded to date from this years allocation of £900k. This represents approx 1/3 at the mid way point of the year. This level of commitment was anticipated by the housing team, due to the changes in the process Social Services use to process service users before referring them to Copeland, as opposed to a drop in demand. It is therefore anticipated that the delay in commitment is temporary and the budget will be fully committed by year end. However the uptake of grants is constantly monitored and any change to this expectation will be picked up at the monthly meeting with finance and housing and reported to Members as appropriate.

3.6.5 Housing capital income is forecast to be £882,000 against a budget of £882,000.

4 CAPITAL RECEIPTS

4.1 Members are asked to note the budget of £2.5m and are reminded that the timing and value of the capital receipts are critical to the funding of the capital programme.

4.2 The current forecast for receipt has now been adjusted to £0.8m in 2010/11 with the remaining £1.7m expected in 2011/12. Members are also asked to note that any transactions relating to the ‘Interchange’ are not included in the forecast.

4.3 The majority of the forecast receipt relates to ‘The Old Gym Site’ at Kells which is expected to complete before January 2011. Should this sale not take place in 2010/11 there will be insufficient funding within the ‘AUTHORISED for use on non housing element’ of Useable Capital Receipts Reserve (UCRR), to fund the forecast capital programme. Members are asked to approve one of the following options to cover this eventuality:

a) Authorise use of Preserved Rights to Buy/Residual rights to Buy reserves (both of which currently have approval to fund housing only) to gap fund until receipt (then repay).
b) Consider the halt of project(s) on capital programme until sale proceeds received.

4.4 Disposal proceeds to 30 September are £nil.

5.0 FINANCING

5.1 Appendix A disaggregates the Capital Programme between expenditure and the sources of funding to show how the capital programme will be funded. It is important that the funding of the Capital Programme (also shown at table 3 below) is fully understood and can be demonstrated, though the monitoring returns, and in particular, the identification of external resources to support capital expenditure. This will contribute to improving the quality of the Financial Accounts, and ongoing budget management.

5.2 The forecast 2010/11 capital programme expenditure of £5,176,670 can be financed as follows:

Table 3: Financing of the 2010/11 Capital Programme

Funded by:	£
Useable Capital Receipts	(1,855,314)
Useable Capital Receipts - Preserved right to buy sales (post stock transfer)	(592,805)
Useable Capital Receipts - Residual Right to Buy receipts (pre stock transfer)	
Useable Capital Receipts - Crematorium Sinking Fund	(168,500)
Other External Funding	(2,573,201)
Capital Grants unapplied (external funding received in advance - housing)	(40,400)
Other Reserves & contributions	(32,351)
TOTAL FINANCING	**(5,262,571)**

6.0 CAPITAL RESOURCES

6.1 Table 4 below shows the forecast position of the movement (i.e. use and new capital receipts) on usable capital receipts during the year which will be used to fund the capital programme.

Table 4: Impact of the forecast capital programme spend and receipts in 2010/11 on the Useable Capital Receipts Reserve

USABLE CAPITAL RECEIPTS	Receipts from sale of assets	Cremat'm sinking fund	Preserved right to buy sales	Residual Right to buy	VAT sharing receipt	Housing Grants/Loans Repaid	TOTAL
	£	£	£	£	£	£	£
Opening balance per **audited** accounts:	(1,085,636)	(168,500)	(1,163,124)	(1,349,385)	(1,590,723)	(7,275)	**(5,364,643)**
Forecast draw down to fund 10/11 capital programme	1,855,314	168,500	592,805				**2,616,619**
VAT sharing receipts to date.							
Forecast Capital Receipts in year	(848,765)						**(848,765)**
Forecast useable Capital Receipts **closing balance**	**(79,087)**	**-**	**(570,319)**	**(1,349,385)**	**(1,590,723)**	**(7,275)**	**(3,596,789)**

(1,919,704)

6.2 The table illustrates the balances within the Useable Capital Receipts Reserve and demonstrates the proportion of the overall value which relates to receipts arising from housing (£1,919,704 against a forecast closing balance of £3,596,789).

7 WHAT ARE THE LEGAL, FINANCIAL AND HUMAN RESOURCES IMPLICATIONS?

7.1 The capital programme will be monitored monthly and reported to members quarterly, throughout the year.

8. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

8.1 It is imperative that all budgets are monitored monthly with exceptions reported through Corporate Team and Executive so that management action can be taken to ensure the effective use of resources as planned by the Council.

8.2 The budget monitoring process is fully integrated into the planning process to ensure that Council objectives and priorities as outlined in the Corporate Plan are fully resourced as planned.

8.3 The capital programme assumes funding from the sale of assets. Generation of capital receipts presents risks in terms of the timing and value of receipt. Capita DBS and the Contracts and Property Manager meet monthly and review asset sales

List of Appendices

List of Background Documents: