

RESOURCES & CENTRAL SERVICES COMMITTEE – 11 MARCH 2004

2003/04 GENERAL FUND CAPITAL BUDGET

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

Monitoring Report presented to this Committee identifies further slippage and the purpose of this report is to report measures proposed to address this situation.

1. RECOMMENDATIONS

It is recommended that the Committee:-

- a) Note the circumstances that have caused the significant further slippage of expenditure in the Council's 2003/04 General Fund Capital Budget as outlined in this report and the possibility of further slippage over the remainder of the financial year.
- b) Agree that the projects outlined in Part A of [Appendix 1](#), currently planned to be funded from the Council's Renewal and Repair Funds, will instead be reclassified in accordance with proper accounting practice and funded from the 2003/04 General Fund Capital Budget.
- c) Agree that the contributions from the Council's revenue budget and other funding sources outlined in Part B of [Appendix 1](#), currently intended to be applied in financial year 2003/04, will instead be deferred and used to help fund the General Fund Capital Budget in future years.
- d) Agree that the acquisition of vehicles as referred to in Part C of [Appendix 1](#) be funded from the 2003/04 General Fund Capital Budget instead of by way of an operating lease.
- e) Note that the measures for controlling and monitoring the arrangements arising from recommendations 1b) to 1d), including the proposed use of and controlled access to the Council's Local Capital Fund, will be in line with those approved by the committee in Section 6 of report 1410/03.
- f) Note that Finance Officers are continuing to examine the accounting treatment of other Renewal & Repair Fund projects.

2. BACKGROUND

Report 336/04 which is also on the agenda for this Committee outlines the latest projected expenditure position on the Council's 2003/04 General Fund Capital Budget and reflects the actual expenditure to the end of January 2004. The report indicates that after adjustment for the previously approved slippage measures (report 1410/03 refers), capital expenditure is projected to underspend the resources expected to be available through the Section 94 Consent regime by £1.233m. If this position remains unchecked the Council will have a substantial underspend on its 2003/04 General Fund Capital Budget at the end of the current financial year.

As this report is an update on that previously presented (report 1410/03), it should be considered in conjunction with the detail presented in that report.

3. PROJECTED UNDERSPEND

The projected underspend of £1.233m as referred to above is after fully implementing the slippage measures totalling £4.998m previously approved.

At the time the previous slippage measures were approved, the projected underspend position was £4.665m. Implementation of the £4.998m package of measures therefore created slippage headroom of £333k and when this is taken into account the additional slippage that has now been identified amounts to £1.566m.

This additional projected underspend arises for a number of reasons, which are set out in the table below.

Project	Projected Underspend £000	Reason for Slippage
Schools Fund / School Buildings Improvement Fund	94	It has been necessary to rephase expenditure in terms of what can be delivered within the current year.
Edzell Primary School	100	Later than anticipated start date has resulted in expenditure continuing to slip.
Various Economic Development projects	779	Considerable slippage has occurred on a number of projects including the following: Acquisition of Employment Land in Kirriemuir; Services to Employment Land at Orchardbank, Forfar and in Arbroath; and Construction of Business Units.
Various Contaminated Land projects	157	It has been necessary to rephase expenditure in terms of what can be delivered within the current year.
Public Transport Fund (Including Angus Rail Interchange and Cycling, Walking & Safer Streets)	395	The demise of Railtrack and its replacement with Network Rail substantially extended the time taken to put in place the legal agreement between Angus Council and Network Rail / Scotrail to have the required work carried out. Although this agreement is now signed, expenditure is continuing to slip.
Forfar Town Centre Improvements	96	Delays in commencing this project will result in no expenditure being incurred during 2003/04.
A92 Dundee to Arbroath Upgrading	226	Expenditure rephased to reflect anticipated land assembly costs.
Additional resources	250	A higher than anticipated level of asset sales has been achieved.
Reduction in consents related to capital grants	-577	Reduction in consent backed capital grant resources to reflect actual projected expenditure and grant drawdown.
Various minor movements	46	This is made up of a number of minor movements / adjustments across several projects / departments
TOTAL	1,566	

Although the above is the best indication of the likely year end underspend on the capital budget, expenditure patterns in previous years suggest that the possibility of yet further slippage occurring over the remainder of the financial year is relatively high. Projects can slip for a variety of unforeseeable reasons (e.g. extreme weather conditions) and the current projections need to be viewed in this context. Indeed at the time of writing, a review of performance is ongoing and as intimated in the Capital Monitoring Report, a revised position will be reported if appropriate.

As stated above, the previous package of slippage measures created £333k of slippage headroom which in effect addresses part of the movements highlighted, such that this report proposes measures to deal with the balance of £1.233m as highlighted by the capital monitoring statement also on this agenda.

The Director of Finance, in conjunction with other Chief Officers, has identified a package of measures amounting to £1.676m, as detailed in Appendix 1.

The net effect of the above is to create a situation where projected expenditure would be £443k above Section 94 Consent resources. These resources are however measured on a cash spend basis and as such the potential overspend position allows for a degree of expenditure accrual. This possible overspend position will thus accommodate further slippage should it occur, although should this headroom not be required in full, the identified project reclassifications will be applied

against Section 94 Resources in the first instance and thereafter the funding contribution deferral measures identified within this report and previously within report 1410/03, will be reviewed to ensure that a year end overspend position will not result.

4. INTRODUCTION OF PRUDENTIAL CODE

Members will be aware of the replacement of the current Section 94 Consent regime for capital spending with a system the Prudential Code. The move to this new system is important in the context of how the Council deals with the projected underspend referred to above, as it presents a unique set of circumstances as to how the Council can deal with such slippage.

This area was covered in detail in report 1410/03 and has not therefore been dealt with again within this report.

5. PROPOSED MEASURES TO ADDRESS EXPENDITURE SLIPPAGE

Background

Expenditure slippage in the current year's capital budget creates a position where the Council has "spare" resources to apply to other capital projects. Of course the fact that existing planned projects have slipped simply means that expenditure on those projects will be incurred in a future financial year, it does not disappear. The measures which the Council implements to address the projected slippage cannot therefore introduce new or previously unplanned projects without this effectively increasing the Council's overall financial commitment beyond what is currently budgeted for.

The measures put in place to address 2003/04 capital budget slippage must therefore free up resources elsewhere either in future years capital budgets or in other funds / balances which can then be used to help fund slipped expenditure in future years. This approach will ensure that addressing the slippage will have an overall financially neutral impact.

The proposals outlined below have been the subject of consultation by the Director of Finance with the relevant chief officers and are consistent with the package of measures previously approved by report 1410/03.

It should be noted that no slippage in respect of the projects identified is currently anticipated, although members should be aware that conditions outwith the Council's control (e.g. severe winter weather) could affect this position. In light of this the expenditure in respect of these projects will be monitored closely to allow early identification of any slippage in respect of the measures proposed, both in this report and as approved in the previous report.

Advancement of Planned Capital Expenditure

The projected underspend is stated after inclusion of actual expenditure to the end of January 2004. The advanced point we have reached in the financial year, means that advancement of expenditure is not considered a viable measure to address slippage at this time.

The package of measures presented in this report does not therefore include any expenditure advancement.

Reclassification of Planned Renewal & Repair Fund Expenditure

The Council has several Renewal & Repair Funds in operation which are used to meet a range of expenditure needs. These funds are used where there is insufficient provision within the Councils mainstream budgets to meet essential works costs.

Although the Renewal and Repair Funds are primarily intended to fund works of a repair and maintenance nature, a number of the projects which have already been agreed to be funded from these funds in 2003/04 have been reviewed and in accordance with proper accounting practice should be charged to capital. Following the introduction of the Prudential Code, this will likely become an ongoing feature.

Part A of Appendix 1 sets out the projects which the Director of Finance, in consultation with the relevant Chief Officers believes can be properly charged to the capital programme in accordance with proper accounting practice rather than the relevant Renewal and Repair Fund as had originally been intended.

Members are however advised that although the projects listed in Part A of Appendix 1 are considered by Finance officers to be suitable for reclassification as capital expenditure, this treatment will require to be confirmed with the Council's External Auditor in due course. Members should also be aware that Finance officers are continuing to review the accounting treatment of Renewal and Repair Fund projects (as indicated previously in report 1410/03) and the result of this review will be reported to the Committee in due course.

Deferral of Planned Funding Contributions

The reclassification of Renewal & Repair Funds identified above will help address a significant part of the total projected slippage. In order to substantially address the remaining slippage it is proposed to defer a number of revenue and other funding contributions.

A number of projects currently included within the 2003/04 capital budget were intended to be part funded by contributions from departmental revenue budgets, Renewal and Repair Funds and the Local Capital Fund. It is proposed to defer these contributions in 2003/04 and to instead apply them in future years. This will require these contributions to be specifically earmarked and carried forward for use in future years (see Section 6 below). The projects affected are identified in Part B of Appendix 1. These projects are not currently expected to suffer slippage within the 2003/04 capital budget.

Acquisition Of Vehicles By Purchase Instead Of By Way Of An Operating Lease

There are two vehicles as referred to in Part C of Appendix 1 that were to be acquired by way of an operating lease. In respect of this acquisition, the relative financial advantage has been assessed as lying with purchase of these vehicles and it is proposed therefore to adopt this route instead of acquiring them by operating lease.

Application of the Proposed Measures

Whilst the projects which have been identified in Appendix 1 are considered to be deliverable they do rely on the intended work being completed and expenditure appropriately incurred. No significant slippage on these projects is currently anticipated although at the time of writing, a review of performance is ongoing with a view to minimising the risk of further slippage, however members will appreciate that slippage on these projects remains a risk (e.g. due to severe weather).

6. IMPLEMENTATION ISSUES

As indicated above the measures to be put in place to address 2003/04 capital budget slippage must free up resources elsewhere which can then be used to fund slipped expenditure in future years. In this regard the arrangements set out in Section 6 of report 1410/03 will also apply to the measures presented in this report, thus ensuring their overall effect is managed in an efficient and financially neutral manner.

Acquisition Of Vehicles By Purchase Instead Of By Way Of An Operating Lease

This measure was not presented when slippage was previously addressed but is consistent with the principle of reclassification of Renewal & Repair Fund expenditure. Consequently, the treatment required in terms of implementation issues is the same as that detailed for reclassification of Renewal & Repair Fund expenditure.

7. VALUE FOR MONEY CONSIDERATIONS

Although the proposals set out in Section 5 will require the timely delivery of a number of projects it is emphasised that the achievement of value for money will remain paramount and that there is no question of the Council seeking to spend money quickly to the detriment of achieving value for money. This and the need to deliver these projects within the requirements of Financial Regulations has been made clear to the relevant departmental directors responsible for implementation of the proposals.

8. FINANCIAL IMPLICATIONS

The proposed measures to address the projected year end underspend on the 2003/04 General Fund Capital Budget will ensure the Council makes best use of its available resources. All of the proposals recommended for approval will have a financially neutral impact on the Council's revenue and capital budgets over the period concerned (2003/04 to 2006/07).

9. HUMAN RIGHTS IMPLICATIONS

There are no human rights implications arising from this report

10. CONSULTATION

The Chief Executive and Director of Law and Administration have been consulted in the preparation of this Report. In addition each Head of Department has also been consulted with regard to their respective areas of responsibility as affected by the proposals in this report.

11. CONCLUSION

This report highlights the reasons for the significant projected underspend on the Council's 2003/04 General Fund Capital Budget and proposes measures to address the position which are considered to be in the best interests of the Council.

The report also notes that the affected projects will be closely monitored to provide early identification of any slippage that may occur in respect of the measures proposed in this report and approved in the previous report.

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Director of Finance

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information), were relied on to any material extent in preparing this report.