Committee: **Finance Committee**	Date: **23 September 2014**
Subject: **Capital and Supplementary Revenue Projects – 2013/14 Outturn and Prudential Indicators**	**Public**
Report of: **Chamberlain**	**For Information**

Summary

The last report on financing of the capital and supplementary revenue project (SRP) programmes was prepared in December 2013 covering the planning period from 2013/14 to 2017/18. This report provides details of the 2013/14 outturn, including the Prudential Indicators for the City Fund.

Actual capital and SRP expenditure in 2013/14 amounted to £201m, some £27m less than the forecast of £228m. This reduction was largely due to the re-phasing of expenditure to later years amounting to £20m, together with net savings of £7m.

The CIPFA Prudential Code provides the statutory framework for ensuring that capital expenditure is affordable, prudent and sustainable and requires the calculation of certain prudential indicators in respect of City Fund capital activities. The 2013/14 actual indicators, drawn from the end of year balance sheet, highlight that the City Fund held no external debt as at 31 March 2014 and confirmed that there was no underlying need to borrow.

Recommendations

Members are asked to note the contents of this report.

Main Report

Background

1. Five year programmes of Capital and SRP schemes are maintained for financial planning purposes which inform the preparation of the medium term financial forecasts for each of the three main funds. The forecasts include prudent provision for the latest estimated costs of schemes approved via the Corporate Project Procedure, planned property acquisitions and other significant schemes in the pipeline.
2. Chief Officers, in liaison with the Town Clerk's Programme Office, provide regular reports on the progress of individual schemes against milestones.
3. Capital expenditure generally results in an increase in asset values and typically relates to acquisitions and enhancements, whereas supplementary revenue projects are one-off items which do not fulfil the capital criteria e.g. feasibility and option appraisal costs, major cyclical repairs and maintenance.

4. The capital controls which apply to the City Fund restrict the use of capital reserves (derived from the sale of assets) solely to the financing of capital expenditure. In this context, grants to third parties for capital purposes, such as the City Fund contribution to the Crossrail project, would qualify as capital expenditure.

5. The Court of Common Council has delegated to me authority to determine the methods of financing capital and supplementary revenue project expenditures. In making such decisions consideration is taken of the strategic and tactical interests of the three funds.

6. The last report on financing of Capital and Supplementary Revenue Projects was prepared in December 2013, based on the forecast figures over the planning period from 2013/14 to 2017/18 which were used in the preparation of the 2014/15 budget. The purpose of this report is to provide details of the 2013/14 outturn against the forecast and to set out the actual Prudential Indicators for the City Fund.

2013/14 Outturn

7. The actual Capital and Supplementary Revenue Project expenditure incurred in 2013/14 was £201m which was £27m less than the forecast of £228m. A breakdown of expenditure by fund is set out below.

2013/14 Actual Capital and Supplementary Revenue Project Expenditure and Financing

	City Fund	City's Cash	BHE	Total	*Comparator March 2014 Forecast*	*Variation*
	£m	£m	£m	£m	*£m*	*£m*
Capital/SRP Expenditure						
Investment	123	11	34	168	*174*	*-6*
Operational	18	15	0	33	*54*	*-21*
Total Expenditure	141	26	34	201	*228*	*-27*
Funded by:						
External Grants & contributions	12	2	0	14	*19*	*-5*
Internal:						
- Capital Reserves	44	0	0	44	*50*	*-6*
- Earmarked Revenue Reserves	48	20	34	102	*107*	*-5*
- Revenue Balances	37	4	0	41	*52*	*-11*
Total Funding Requirement	141	26	34	201	*228*	*-27*
March 2014 Forecast Figures	*153*	*38*	*37*	*228*		
Variation	*-12*	*-12*	*-3*	*-27*		

8. The following table indicates that the main reason for variations between forecast and actual expenditures in 2013/14 is the rephasing of expenditure, accounting for a net total of £20m which is therefore simply deferred to later years. The deferred projects related mainly to investment properties, Information Systems, the Guildhall School and unspent provisions for new schemes and contingencies. Savings of £7m arose mainly from refinement of final accounts on a number of major schemes.

2013/14 Analysis of Variations compared with Forecast

	City Fund	City's Cash	BHE	Total
	£m	£m	£m	£m
Expenditure Reductions				
Net rephasing of expenditure to later years	-11	-7	-2	-20
Net Savings	-1	-5	-1	-7
Total Reduction in Expenditure	-12	-12	-3	-27
Reductions in Financing				
External Contributions	-2	-2	0	-4
Internal Funds	-10	-10	-3	-23
Total Reductions in Financing	-12	-12	-3	-27

Prudential Indicators

9. The CIPFA Prudential Code[1] provides a framework for ensuring that capital expenditure and financing (in particular borrowing) is affordable, prudent and sustainable, and requires the calculation and monitoring of certain prudential indicators in respect of City Fund capital activities.

10. In addition to setting indicators for the forthcoming year during each budget cycle, the Code requires authorities to calculate certain indicators drawn from the end of year balance sheet. The appendix contains the actual indicators for 2013/14, including commentaries which highlight, in particular, that the City Fund held no external debt as at 31 March 2014 and there was no underlying need to borrow.

11. The City Fund total expenditure figures used for the indicators are considerably higher than the actual expenditure figures in the tables above. This is the net impact of:

    - The actual prudential indicators being based on figures included within the published financial statements. During the year, cash neutral property transactions to the value of £46m were grossed up as capital expenditure and income for the published financial statements to comply with accounting standards. However, for internal forecasting and reporting purposes, such 'notional' transactions are excluded from the table above.

    - The opposite is the case for Supplementary Revenue Project expenditure which is included in the table above but not relevant for the calculation of the indicators which are focused on capital.

Appendix: 2013/14 Actual Prudential Indicators

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[1] The Prudential Code is a professional code of practice developed by the Chartered Institute of Public Finance and Accountancy to support capital investment decisions. Local authorities are legally required to have regard to it under the Local Government Act 2003.