



ALL SERVICE COMMITTEES 12 JUNE - 14 JUNE 2007

POLICY AND RESOURCES COMMITTEE 21 JUNE 2007

GENERAL FUND FOURTH QUARTER CAPITAL MONITORING 2006/07

Report by Director of Finance

PURPOSE OF REPORT To provide Members with details of the final outturn of the Capital Programme for 2006/07 at 31 March 2007 and to seek approval for the revised Capital Programme for 2007/08.

COMPETENCE

- 1.1 Section 35 of the Local Government in Scotland Act 2003 governs the capital spending power of Scottish Local Authorities.

SUMMARY

- 2.1 The total resources to fund capital expenditure in 2006/07 are shown in the table below.

RESOURCES	£000
Supported Borrowing	11,039
b/f from 2005/06	4,188
Total Borrowing to fund Capital Expenditure	15,227
Capital Grants from Government	7,530
CFCR - Capital Grants	1,271
Capital Receipts	2,791
Total available resources	26,819
Actual Capital Expenditure 2006/07	26,402
Resources c/f at 31 March 2007	417

- 2.2 The Capital Expenditure achieved was £26,402k, equating to 86.11% of the revised Programme at 31 December 2006. This was £417k less than the available resources.
- 2.3 Capital Grants totalling £1,271k paid to third parties since 25 September 2006 have been funded from Revenue in line with Audit Scotland and Scottish Executive Guidelines.
- 2.4 A summary of the overall funding position for 2006/07 and the revised position for 2007/08 is shown in Appendix 1. Appendix 2 shows the expenditure approved for funding by Prudential Borrowing and CFCR. Appendices 3 and 4 summarise the expenditure and income by Committee for 2006/07 and the revised Programme incorporating slippage and acceleration for the following year. Appendix 5 details the status of the PERs. A more detailed analysis of income and expenditure, including slippage and acceleration for each Committee, will be available in the July Information Bulletin.

RECOMMENDATIONS

- 3.1 **It is recommended that Members:**
- note the capital expenditure to 31 March 2007; and**
 - approve the revised Programme for 2007/08.**

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Background Papers: 2006/07 Capital Monitoring Working Papers
Appendix 1 Capital Resources
Appendix 2 Expenditure funded by Prudential Borrowing and CFCR

BACKGROUND

- 4.1 31 March 2007 marks the end of the third year of the 2004-2008 Capital Programme. A detailed review of the Programme was carried out in December 2006 and a report was submitted to the Policy and Resources Committee on 14 December 2006. The review identified 10 projects which were recommended be withdrawn from the capital programme 2004-08 and re-submitted for consideration in setting the 2008-12 capital programme. Free resources were then available for reallocation and three projects were identified as Comhairle priorities to which these resources could be applied. The current Programme is therefore one which it was felt could be delivered in the timescale available when the inevitable slippage is taken into account.
- 4.2 As detailed in Appendix 5 there is still expenditure of £3.2m awaiting Project Evaluation Reports (PER) prior to being included on the Capital Programme.
- 4.3 The Local Government in Scotland Act 2003 introduced a narrower definition of Capital Expenditure which in accordance with best accounting practice no longer includes capital expenditure that does not result in an asset for the Comhairle. Capital grants to third parties fall into this category. Grants of this nature form a major element of the Comhairle's capital programme because they can be used to bring in a significant level of other funds and extend the range of service available in the islands. The £9m included in the 2004-08 programme is expected to provide assets to the value of £38m. In 2004 this was raised with Audit Scotland who considered that it was acceptable for the Comhairle to continue to include expenditure on capital grants in its Capital Programme.
- 4.4 Despite assurances by Audit Scotland early in 2006 that this practice could continue, on 25 September 2006 they changed their view and informed the Comhairle that such grants could not now be capitalised. Consequently, they qualified the Comhairle's 2005/06 accounts as expenditure on capital grants in that year amounted to £1.8m which they considered to be a material sum. By 25 September 2006 (almost half way through the financial year 2006/07) approximately £800k had been spent on capital grants and so Audit Scotland agreed that this could be capitalised but from that date grant expenditure would have to be met from revenue. This is shown in the table at 2.1 as £1.271k funded by CFCR.
- 4.5 Representation was made by the Comhairle to the Minister for Finance and following consideration of the problem by a Working Group, which included the Comhairle's Director of Finance, the Minister agreed to allow a limited relaxation in the rules surrounding the treatment of grants to third parties for capital projects. Local Authorities may apply for permission to borrow for capital grants providing the local authority can identify a statutory function under which it has the power to incur the expenditure and the third party is a properly constituted community group. Application for approval for 15 grant schemes to be treated as capital expenditure in 2007/08 has been made. There are 4 other schemes which do not meet the criteria set by the Executive with a total budget for 2007/08 of £488k and 2 further schemes with a total budget of £180k which it is hoped will meet the criteria if a suitable legal power under which borrowing may take place can be identified.

CAPITAL EXPENDITURE 2006/07

- 5.1 The Capital Expenditure achieved in 2006/07 was £26,402k which was £417k less than the available resources. Expenditure achieved the Supported Borrowing level which included the balance of the carry forward of £4,188k from 2005/06 which arose as a result of the consequences of the hurricane in January 2005. Line 5 on Appendix 1 shows the level of Capital Expenditure achieved on an annual basis since the start of the current four-year Capital Programme.
- 5.2 Prudential Borrowing and CFCR had been approved throughout the year for a variety of projects as detailed in Appendix 2. The Prudential Borrowing was not taken into the calculation of resources in 2006/07, so that supported borrowing could be utilised.
- 5.3 Comhairle policy states that all overspends on capital projects must be paid for by Prudential Borrowing with the associated loan charges being met from the service revenue account. The Spinal Route project is the subject of a separate report by the Director of Technical Services.

- 5.3 During 2006/07 there was slippage in expenditure on a number of projects spread across all committees for a variety of reasons. In some cases this was matched by corresponding slippage in the income for these projects. Thus expenditure did not fall far below available resources. This slippage is expected to be caught up in 2007/08. Expenditure on capital grants has been delayed awaiting the decision of the Scottish Executive but schemes are fully committed so once approval is granted this expenditure will also be caught up.
- 5.4 Appendices 3 and 4 show the summary of Expenditure and Income by Committee. The detail for the year, showing slippage and acceleration by project, will be available in the July Information Bulletin.

CAPITAL EXPENDITURE 2007/08

- 6.1 Appendix 1 also shows that, taking into account the slippage from 2006/07, the one-off Efficiency Grant from the Executive of £2.220k and the additional efficiency projects to be funded from Prudential Borrowing, the capital expenditure for 2007/08 is budgeted to be £32m. It is also likely that most of the £3.2m in APERs not yet approved will go ahead during 2007/08, bringing the total possible Programme up to £35m. Up until this year, Private Sector Housing Grant (PSHG) was also monitored as part of the Capital Programme. Although now reported as a revenue grant, for comparative purposes this increases the total resources available for 2007/08 to almost £39m. There are resourcing implications both in the local construction industry and within the Comhairle in delivering a programme of this size in one year. However, based on past experience, it is likely that there will be slippage in the programme although at this stage in the year it is not possible to quantify the extent of this slippage.
- 6.2 In addition, the Scottish Executive has awarded a grant of 80% towards 5 Coast Protection Schemes totalling £6m. These schemes form part of the coastal zone aspects of the post January 2005 storm repair and betterment programme. The balance of the funding has yet to be secured but if it is put in place during 2007/08 then this work will also have to be managed, placing additional demands on Comhairle staff. Details of this project will be reported to the Transportation Committee at the June Series.