

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

17 APRIL 2012

REPORT OF HEAD OF CENTRAL SERVICES

BUDGET IMPLICATIONS OF CAPITAL RECEIPT

1.0 PURPOSE OF REPORT

1.1 To outline to members the remaining financial implications/impact on the revenue budget following the receipt of a major capital receipt and service issues arising.

2.0 RECOMMENDATIONS

2.1 That Members note the actions taken under delegated authority in utilising part of the receipt for repaying general fund debt and funding capital expenditure (para. 3.2.1 refers);

2.2 That Members note the latest position in regard to the capitalisation of revenue costs for offset against the capital receipt (para. 3.2.2 refers) and;

2.3 That Members note the amended revenue budget estimates in respect of the general fund (para. 3.3.1 refers).

3.0 KEY ISSUES

3.1 Background

3.1.1 At a meeting of Full Council held on 1 February 2012 it was approved that delegated authority be given to the Head of Central Services in consultation with the Strategic Director (CAM) and the Chair of this committee to utilise a portion of the capital receipt to repay all general fund debt and transferring the outstanding loans to the Housing Revenue Account (HRA) and finance any existing capital programme items currently being funded from borrowing by the capital receipt. It was further approved that the revenue estimates be amended to reflect the budget implications of such a decision. It was also approved to fund any capital programme items in 2012/13 funded from the corporate priorities reserve from the capital receipt should sufficient funds be available.

3.1.2 The balance of the capital receipt (£15,200,000 less deposit previously received of £377,500 was transferred into the Council's bank account on 26 January 2012). In addition to the capital receipt the following revenue budget monies were also received:

• Rent of land being rent due from 12 January 2012 to 24 March 2012, 72 days at £68.50 per day	£4,932.00
• Contribution to Council's admin costs in connection with a footpath diversion	£10,000.00
• Contribution to Town Centre Management	£70,000.00
• Contribution to MBC's professional fees	£100,000.00
• Interest accrued since exchange on monies held by Freeth Cartwright	£999.11
Total revenue income received	£185,931.11

3.2 Use of Capital Receipt

- 3.2.1 Following the exercising of the delegated authority to utilise the receipt to repay general fund debt and fund existing capital schemes the balance of the capital receipt is estimated to be:

Gross Receipt	£15,200,000
Less capitalisation of salaries (to be determined)	
Less repayment of debt and premiums	-£5,040,018
Less funding of capital expenditure 2011/12	-£868,000
Estimated Balance 31 March 2012	£9,291,982
Less funding of capital expenditure 2012/12	-£2,479,000
Estimated balance unallocated	£6,812,982

Formal sign-off of these transactions has been made in accordance with paragraph 3.1.1 above. The current general fund debt will be repaid as part of the final accounts process for 2011-12 and loans outstanding transferred to the HRA as part of the borrowing need required for financing the buying out of the current housing system and all existing schemes funded through borrowing will now be funded from capital receipts. In addition, in line with the recommendations made by Full Council, capital projects currently funded from the Corporate Priorities Reserve will be financed from capital receipts to preserve the more flexible revenue reserve which can be used for both capital and revenue spending. The actual amount may differ depending on the actual expenditure incurred. The remaining funds will be invested until their use is determined bringing benefits to the revenue budget as discussed below.

- 3.2.2 The Capital Finance Amendment Regulations 2010 introduced from 1 April 2010 permits the costs of managing a disposal of a non-housing non-current asset to be offset against a capital receipt up to 4% of the value. Officers are currently undertaking an exercise to look at the options for capitalising revenue expenditure incurred for the relevant period on the receipt to include appropriate in-house officer time i.e. property, legal & professional fees. As part of the closing of the accounts process such costs will be determined and compared to the income received of £110,000 for admin and professional fees. It isn't anticipated at this stage that the final cost will exceed the income received, which will result in no capitalisation of costs being necessary. This will mean that the revenue budget has simply benefitted by the difference. Should the costs exceed the income then this will be reported to the next meeting of this committee as part of the provisional year-end revenue budget report.

3.3 Revenue Budget 2012/13 Implications

- 3.3.1 A restated budget has been attached at Appendix A; the details of the changes being as shown in Appendix A. This results in a surplus of £408,030 on general expenses and £5,230 on special expenses. A report elsewhere on the agenda presents a policy for member's consideration regarding the New Homes Bonus (NHB) grant. It was agreed at Full Council as part of the budget approval that this policy would consider the level of contribution that would be made to the newly created NHB reserve that has been created and the use to be which this would be put. The outcome of this policy will determine the remaining balance on the revenue budget.
- 3.3.2 In addition to the above and not reflected in the estimates is a contribution of £70k to the Town Centre Management Scheme as part of the s106 agreement; payment for which is expected in 2012/13. This is defined in the agreement as "measures to promote the town centre of Melton Mowbray comprising a touch screen visitor information point to be located in the food store, a loyalty card scheme promoting town centre businesses, enhanced town centre parking and town centre signage. This is in addition to a sum of £70k which was received in 2011-12 for the benefit of the town centre. A report will be taken to the Rural Economic and Environmental affairs Committee concerning the use of these two funding streams; the payment due in 2012/13 to be in line with the S106 requirements.

4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 A capital receipt can only be utilised for the repayment of debt or to fund capital expenditure. As such when members consider the use of these funds they should consider maximising the flexibility provided by revenue reserves such as the Corporate Priorities Reserve and any New Homes Bonus Reserve by funding capital expenditure from capital receipts in the first instance. The previous decision by full council to utilise the receipt in preference to the Corporate Priorities Reserve maximises this flexibility.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 There are no further financial and resource implications other than those already set out above.

6.0 LEGAL IMPLICATIONS/POWERS

- 6.1 There are no further legal implications other than that relating to the use of the s106 monies set out above.

7.0 COMMUNITY SAFETY

- 7.1 Individual budgets could have links to community safety issues. These are covered in any associated reports and financial forms that refer to these budgets as they progress through the decision making process.

8.0 EQUALITIES

- 8.1 The proposals for savings in the original budget as approved by Full Council were subject to an Equalities Impact Assessment (EIA) where appropriate by the relevant service area in order to determine whether or not any adverse impact could be identified to any particular diversity group. Completed EIA's were provided for Full Council for all savings proposals for member's information.

- 8.2 Other elements of the budget will relate to equalities issues and these have been equality impact assessed as appropriate by the relevant service area.

9.0 RISKS

- 9.1 There is always the risk that an item of income or expenditure is not adequately reflected in the budget for any financial year. The process followed as set out in the Service and Financial Planning Timetable is aimed at mitigating this risk. However, the Council has a working balance which is annually reviewed and calculated on a risk based approach. This working balance is there to provide for any variations in actual against budget that could not have been anticipated at this stage. The detailed calculations are contained in the Council's Medium Term Financial Strategy. Full details of those items of particular risk were included in the budget report to Full Council on 1 February 2012.

10.0 CLIMATE CHANGE

- 10.1 Climate change and our response to this could impact on a number of budgets and this should be considered as part of the service planning process.

11.0 CONSULTATION

- 11.1 The Service and Financial Planning Timetable sets out the Council's approach to consultation and its links to the budget setting process. All Heads of Service and Members are involved in the process at various stages.

- 11.2 Union representatives attended the BSPWG meeting held in November and the budget away day in order to facilitate communication with staff representatives. Staff directly affected by savings were kept informed through their Head of Service of the proposals approved.
- 11.3 The Town Area Working Group was also consulted on proposals for Special Expenses Melton Mowbray.
- 11.4 Consultation with business ratepayers was undertaken via the website following positive feedback from last year's exercise undertaken through this method.
- 11.5 Extensive consultation was undertaken for the 2011/12 budget and much of the responses have been used to shape the proposals approved for 2012/13.

12.0 **WARDS AFFECTED**

- 12.1 All wards will be affected

Contact Officer: David Cowl – Chief Accountant

Date: 13 March 2012

Appendices: Appendix A – Revised Summary of Committee Estimates 2012-13

Background Papers: Budget working papers 2012/13
Budget Away Day Papers
Committee papers

Reference: X: C'tees, Council & Sub-C'tees/PFA/2011-12/17-04-12/DG – Budget Implications of Capital Receipt