

FINANCE, AUDIT AND RISK

16 January 2012

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

8

TITLE OF REPORT: CAPITAL PROGRAMME 2012/13 ONWARDS

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. PURPOSE OF REPORT

- 1.1 To obtain Cabinet's approval for the provisional capital programme for 2012/13 to 2015/16.

2. FORWARD PLAN

- 2.1 This Report contains a recommendation on a key decision to be taken by Council on 9th February 2012 that was first notified to the public in the Forward Plan on the 1st September 2011.

3. BACKGROUND

- 3.1 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District. Finance and other resources are aligned to the strategic priorities as set out in the Priorities document. In order to provide clear evidence to support decisions on resource allocation, the methodology for scoring individual projects has been used again as in the 2011/12 process. This requires that each proposal for additional investment is linked to one of the three priorities identified in the Priorities document.
- 3.2 The December meeting received the capital programme estimates, as at the end of the second quarter of 2011/12, and also received fourteen further capital investment proposals as part of the Corporate Business planning process.
- 3.3 The 2011/12 second quarter monitoring report advised Members of a reduction of £693k in the projected expenditure in 2011/12 to £6.957million. This reduction in spend was accounted for by £802k of revisions in the timing in completion of schemes, leading to slippage into 2012/13, partly offset by an increase of £50k in spend on a scheme and a new scheme of £69k.
- 3.4 The report also provided an update on the availability of funding for the capital programme and advised Members that the operational boundary for borrowing in the Treasury Strategy was sufficient for the amount of borrowing needed to fund the 2011/12 capital programme.

4. CAPITAL PROGRAMME

Capital Programme 2011/12

- 4.1 Further to the second quarter monitoring report there are no significant changes to the 2011/12 capital schemes expected at the current time. A further update will be provided in the third quarter monitoring report in February.

Capital Programme 2012/13 and onwards

- 4.2 The strategic summary in Appendix A summarises the capital programme by Council priority while also demonstrating the overall funding position year on year. The scheme detail is shown in Appendix B. The estimated capital spend in 2012/13 is £5.930million and includes the £697k of proposed investment schemes listed in appendix C. The total estimated capital spend over the period 2012/13 to 2015/16 is £13.320million.
- 4.3 A comprehensive review of the capital programme was completed last year by the relevant officers with the Portfolio Holders, in the light of the changing financial position, to establish that the remaining schemes in the capital programme are still supported by Members as projects which will deliver on the Council priorities.
- 4.4 There are now fifteen capital investment proposals detailed in Appendix C. This includes the fourteen proposals put to Members in December and also a new proposal for investment in Westmill Community Centre (C15). The proposal recognises that the Community Regeneration Project Board is considering alternative funding options. It is, however, prudent to include provision for the roofing works in the Capital programme at this stage. As requested by Members, officers have reviewed the urgency of the proposals and as a result three of the proposals (C3, C6 and C9) are now proposed to begin in 2013/14.
- 4.5 The total new investment in 2012/13 is £697k and in 2013/14 is £248k. All proposals have been linked to Council priorities and have been scored and ranked to give an indication of the priority of the proposals. It is recognised that borrowing would be needed to fund these proposals and it is estimated based on current borrowing rates that the cost to the general fund of paying the interest on the borrowing would total £21k a year for all the proposals. Provision would also need to be made for repaying the principal amount borrowed. This has not yet been built into the general fund estimates.
- 4.6 There are funds available in the IT reserve to fund the three information technology proposals (C10,C11,C12) subject to consideration of the business cases by Challenge Board.
- 4.7 The Council has allowances each year in the capital programme for the following schemes:
- Tenant Cash Incentives, £105k
 - Housing Association Grants, £500k
 - Disabled Facility Grants, £745k
 - Private Renovation Grants, £35k
- Further allowances have been made in each year from 2012/13 to 2015/16 and Members are asked for on-going commitment of these schemes at this level.
- 4.8 The Council receives Government funding of approximately £250k a year towards the Disabled Facility Grant programme. The remaining £495k spend of the total £745k budget is funded from the Council's own resources. The Council has not to date been given any indication of a reduction in Government funding for Disabled Facility Grants in the future.

4.9 The capital programme includes an estimate of £3.48million for the Council's share of the Museums Development Scheme. HTH Ltd will fund the remaining construction costs via funding from the Community Builders Fund. The capital programme estimates anticipate the Heritage Lottery bid will be successful and will fund around £1million of the fit out costs with the remaining expenditure to be met from prudential borrowing. Should this bid be unsuccessful Members should be aware it may be necessary to borrow further or apply capital receipts, if they are available, at the relevant time. The total project cost estimates will need to be revised once the construction work is tendered and awarded to the winning contractor.

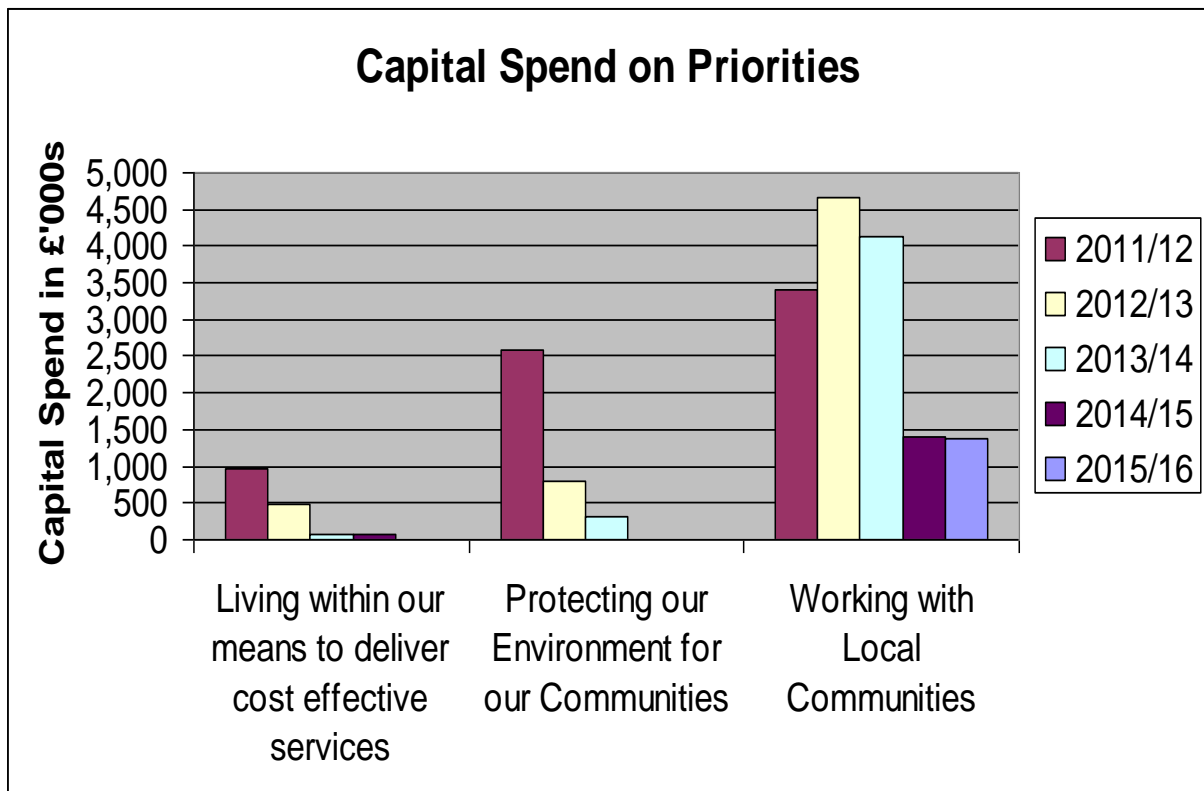
Link to the Council's three priorities

4.10 The Council has adopted new high level priorities for 2012/13 and onwards. These are:

- Living within our means to deliver cost-effective services;
- Working with local communities; and
- Protecting our environment for our communities

4.11 The capital programme includes a total investment in these new three priorities, over the period 2012/13 to 2015/16, of £13.320million. This is demonstrated in Chart 1.

Chart 1: Distribution of capital spend on the Council's priorities



Capital Programme Funding 2012/13 and onwards

4.12 The capital programme can be funded by a combination of third party contributions (e.g. S106 and grants), government grants, revenue contributions, prudential borrowing, IT reserve and capital receipts. The estimated split over funding sources is shown in Appendix A.

- 4.13 The largest assumed source of funding is through the use of Council resources, either capital receipts or prudential borrowing. Over the period 2012/13 to 2015/16 the total demand on capital receipts is estimated to be in excess of the receipts available in the useable capital receipts reserve, particularly in the shorter term while asset disposals are not forthcoming. In recognition of the position of available capital receipts Members have given approval for Officers, in consultation with the Portfolio Holder for Finance and IT, to borrow at the appropriate time for the Museum Services Development scheme up to £2.2million over the life of the project. Further to this Members will consider the operational boundary for borrowing in the Treasury Management Strategy which provides the limit of authorisation for borrowing.
- 4.14 Officers have investigated the legal position with regard to the Council's position of using the set aside housing receipts for the funding of capital schemes. The Council is able to use some of this funding but will need to ensure it is affordable and do so in a prudent manner. An enquiry on the accounting treatment for using the set aside housing receipts is outstanding with the external auditors. However, given the current position of borrowing rates available to the Council it is likely that it would be financially beneficial to borrow rather than use cash investments which are currently generating a greater return.
- 4.15 The borrowing required to fund the 2012/13 capital programme is currently estimated at around £3million. Based on current borrowing rates the annual interest cost of this would be roughly £70k and will need to be included in the general fund estimates for 2013/14.
- 4.16 The availability of third party contributions and grants to fund capital investment is continuously sought in order to alleviate pressure on the Council's available capital receipts and allow for further investment. In 2012/13 a total of £850k of third party contributions and grants is expected to be applied.

Asset Disposals

- 4.17 Further consideration is being given to the asset management plan, in particular the assets identified for disposal and relevant merits in the timing of disposal in the light of market conditions. It is currently anticipated the Council will receive over £2.9million of receipts from asset disposals in 2012/13.

5. LEGAL IMPLICATIONS

- 5.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering the capital programme and its impact upon the revenue budget Cabinet is able to make informed recommendations on the budget to Council.
- 5.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

6. FINANCIAL AND RISK IMPLICATIONS

- 6.1 The main financial implications are covered in section 4 of the report.
- 6.2 The Authority can call upon prudential borrowing or the disposal of its non-core assets if needed and if considered affordable.

- 6.3 The Authority operates a 10% tolerance limit on capital projects and on this basis over the next four-year programme a funding reserve of £1.3million is recommended. A funding surplus is not expected to be available at the end of 2015/16 but the Council does have set-aside resources which can be used for prudential borrowing as long as adequate provision is made in the general fund to finance the loan. A continual review will seek to manage the capital programme within available resources.

7. HUMAN RESOURCE AND EQUALITY IMPLICATIONS

- 7.1 There are no direct human resource or employee equality implications

8. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 8.1 Further to the November Budget Workshops which were open to all Members, Cabinet has sought the views of the Area Committees of the fourteen proposals included in the December Corporate Business Planning Report. At the time of finalising this report Baldock and District, Hitchin and Royston Committees had been held. Any comments received from Letchworth and Southern Rural Committees will be provided to Members either separately prior to the meeting or verbally at the meeting.

The following comments were received from Baldock and District Committee:

- C6 and C7: the Committee enquired as to whether these repairs were absolutely necessary and essential at the moment.
- C10, C11 and C12: the Committee observed that the IT reserve should not be used simply because there are funds remaining, although it was acknowledged that the projects will only happen should a business case be approved.
- C13 Replacement trees: the Committee enquired about the original species and size of trees compared to the trees replacing them. The Service Manager – Maintenance was able to answer their questions and explained that efforts were being made to stick to the original species, but due to underground service pipes it appeared that there was not sufficient soil to support the replacement trees and these had also failed and were now having to be replaced.

- 8.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

9. RECOMMENDATIONS

- 9.1 **That Cabinet approves the provisional capital programme for 2012/13 to 2015/16, which includes the projects listed in Appendix C.**
- 9.2 **That Cabinet approves the 2012/13 investment proposals, listed in Appendix C, which total £732k overall (£697k profiled in 2012/13).**
- 9.3 **That Cabinet approves the inclusion in the capital programme of the 2013/14 investment proposals (C3, C6 and C9), listed in Appendix C, as an early indication of £302k of investment required (£213k profiled in 2013/14).**
- 9.4 **That Cabinet approves the on-going commitment to the Tenant Cash Incentive Scheme, Housing Association Grant Scheme, Disabled Facility Grant Scheme and Private Renovation Grant Scheme to the level detailed in paragraph 4.7.**

10. REASONS FOR RECOMMENDATIONS

- 10.1 To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes.

11. APPENDICES

- 11.1 Appendix A, Capital Programme Summary,
Appendix B, Capital Programme Detail,
Appendix C, Capital Investment Proposals for 2012/13 and onwards

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13. BACKGROUND PAPERS

- 13.1 Estimate Working Papers 2012/13