

Meeting: COUNCIL
Portfolio Area: Resources / Housing

Agenda Item:

5B

Date: 25 FEBRUARY 2015

**2015/16 FINAL CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY
UPDATE**

BUDGET & POLICY FRAMEWORK

Author – Clare Fletcher	Ext 2933
Contributor – Crystal Leader	Ext 2351
Lee Busby	Ext 2730
Lead Officer – Scott Crudgington	Ext 2185
Contact Officer – Clare Fletcher	Ext 2933

1. PURPOSE

- 1.1 To approve revisions to the 2014/15 General Fund and Housing Revenue Account (HRA) Capital Programme and approve the draft Capital Programmes for 2015/16.
- 1.2 To provide Members with an update on the Council's final 5 Year Capital Strategy and the resources available to fund the Capital Strategy.
- 1.3 To update Members on the work of the Leaders Services Priority Group (LSPG) in reviewing all General Fund capital bids prior to inclusion in the final 2015/16 onwards Capital Strategy.

2. RECOMMENDATIONS

- 2.1 That the revised General Fund and HRA 2014/15 capital programme, as detailed in Appendix A and Appendix B to this report be approved
- 2.2 That the final 2015/16 General Fund Capital Programme as detailed in Appendix A to this report be approved.
- 2.3 That the final 2015/16 HRA Capital Programme as detailed in Appendix B to this report and as included in the HRA Business Plan be approved.
- 2.4 That the updated forecast of resources as summarised in Appendix A (General Fund) and Appendix B (HRA) to this report be approved.
- 2.5 That the transfer of any unused General Fund borrowing costs to the capital reserve, (paragraph 4.3.2 of this report refers) be approved.
- 2.6 That the General Fund Capital Programme be agreed (Appendix C to this report refers).

- 2.7 That the work undertaken by LSPG on behalf of the Executive in reviewing and challenging the General Fund Capital Strategy be noted.

3. BACKGROUND

- 3.1 The Council has a five year Capital Strategy which, prior to 2015/16 was based on the rolling General Fund 15 Year Capital programme and the HRA Business Plan.
- 3.2 The strategy was last reported to the Executive in January 2015 as part of the budget and policy framework. The report updated Members on the new approach to General Fund Capital Strategy which had been implemented as the Strategic Director (Resources) had advised Members that the current Capital Strategy was no longer fit for purpose and proposed a change in approach as outlined in the July 2014 General Fund Medium Term Financial Strategy (MTFS). This approach meant that from 2015/16 the General Fund five year programme would be zero based with all capital budgets being bid for using the Leaders Service Priority Group (LSPG) to provide challenge to the process.
- 3.3 LSPG met in October and November to review all General Fund capital bids (2015/16 onwards) and made a number of recommendations and the Executive was updated in January. 2015/16 capital bids are appended to this report.
- 3.4 In the intervening period between the current Strategy and the 2015/16 zero based Capital Strategy, Officers proposed and Members approved that only essential expenditure should be incurred in 2014/15 for the General Fund capital programme.
- 3.5 At its January meeting the Executive approved a General Fund Capital Programme of £5,877,630 and £6,725,350 for 2014/15 and 2015/16 respectively which was considered by the Overview & Scrutiny Committee held on the 21 January 2015. The HRA programme of £16,914,640 and £28,164,300 for 2014/15 and 2015/16 respectively was also considered at that meeting.
- 3.6 The January report advised Members that the proposed 2015/16 General Fund programme did not include a significant investment bid for the Council's garages as due to the size of the investment LSPG recommended a separate report was presented to the Executive at a later date.
- 3.7 The January report advised Members that the draft five year capital programme for the General Fund was funded without the need to prudentially borrow and leaving a balance remaining in the capital reserve of £1,823,512 as at 31 March 2016.
- 3.8 The draft HRA five year capital programme presented to the January Executive was based on the updated HRA Business Plan presented to the November Executive.
- 3.9 The proposals and details in this report were considered by the Executive at its meeting on 10 February where the recommendations set out in section 2 above were approved for recommendation to Council.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

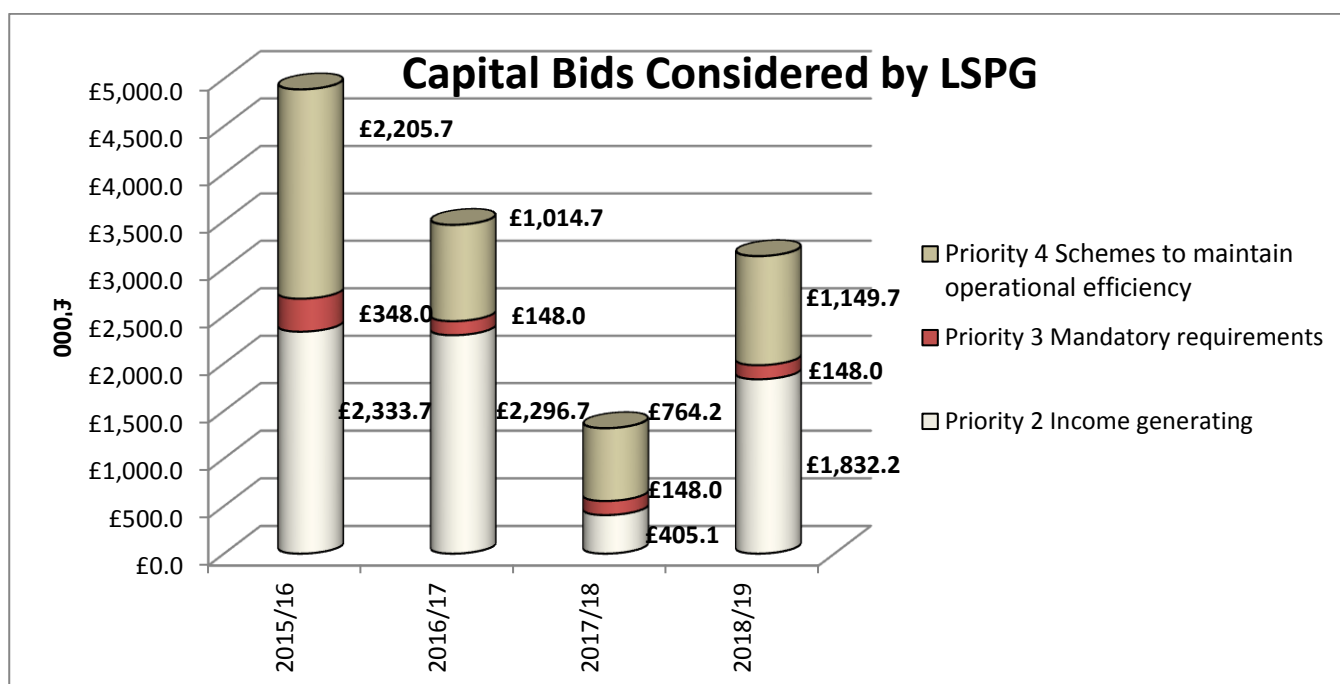
4.1 Capital Programme – 2014/15 General Fund

4.1.1 The 2014/15 programme is now projected to be £5,619,290 which is £258,340 lower than that approved at the January Executive. The variances are summarised in Appendix A and included in the table below.

General Fund Capital Programme Change to 2014/15 Working Budget				
Cost Centre	Scheme Name	Increase (Decrease) to 14/15 Working Budget	Slippage to 15/16 Working Budget	Reason
		£	£	
KC900	Arts & Leisure Centre	(55,000)	55,000	Estimated completion date mid April
KE328	Archer Road Neighbourhood Centre	(172,340)	172,340	Scheme slippage due to further negotiation with the main contractor.
KR900	Council Offices	(38,000)	38,000	Estimated completion date after March 2015.
KG002	Purchase of Garage	7,000	0	Block garage included in an HRA acquired purchase and bought by the General Fund in January 2015
	Total	(258,340)	265,340	

4.2 Capital Programme – 2015/16 General Fund

4.2.1 Officers put forward a range of capital bids for consideration by LSPG which have been summarised in the following table and are detailed in Appendix C.



4.2.2 It is clear from the bids submitted that there has been an emphasis predominately on 2015/16 and it is anticipated that this is not the complete capital programme over the next four years, however this is the first time the programme has been zero based and bids are expected to increase for future years as part of PBB3.

4.2.3 LSPG considered all the presented schemes and made the following changes as outlined below:

LSPG 2015/16 Growth bid Changes					
Bid	Scheme Name	Original Bid £	Revised Bid £	Variance £	Reason
C8	Town Centre Cross Canopy - Park Place	16,800	12,000	(4,800)	The original option was to repair the canopy, however LSPG recommended demolition to prevent future maintenance issues.
C13	Town Centre Toilets Re-Roofing	140,000	0	(140,000)	This option was not supported by LSPG. (scoring 5 out of a total 21)
C18	Furniture Replacement	20,000	5,000	(15,000)	An assessment of the annual requirement for furniture renewal has reduced the approved bid.
C20	Decommissioning Disable Lift (by the Council Chambers in Daneshill House)	25,000	5,000	(20,000)	LSPG reduced the growth bid by leaving the lifting gear in situ but boarding up the lift entrance.
C21	Residential Garages	1,700,950	250,000	(1,450,950)	LSPG agreed that due to the size of the growth bid over the next four years that a separate report to the Executive is required.
C24	Indoor Market Improvement Works (Reconfiguration work in food hall, new fascia boards to all stalls, new internal flags and poles to advertise individual businesses and units to let and marking out fire evacuation works throughout the market)	22,000	0	(22,000)	LSPG identified the bid as revenue expenditure and officers proposed to withdraw the option and review alternative funding.
C26	Creation of New Post within Estates for a Disposal Surveyor	50,000	0	(50,000)	LSPG identified the bid as a revenue growth and this has been withdrawn from capital and included in the draft General Fund budget for consideration
	Total	1,974,750	272,000	(1,702,750)	

4.2.4 The new Capital Strategy approved bids for 2015/16 total £3,454,650 (including £270,000 of disabled facilities spend funded from grant). Any previously approved slippage and schemes funded wholly from grant or other contributions have been added to the approved bids giving a total 2015/16 capital programme

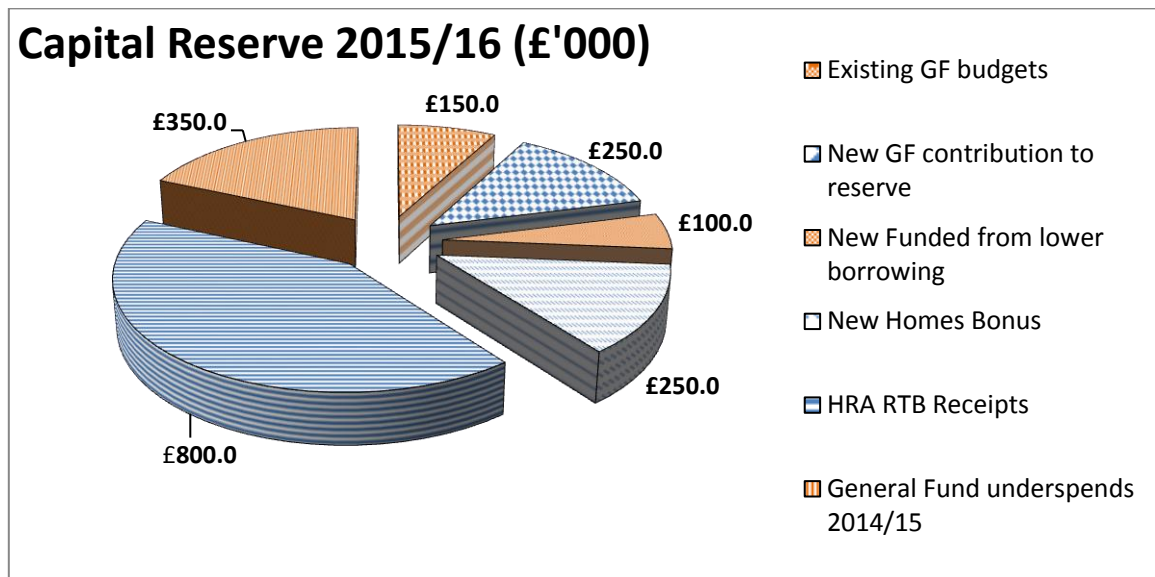
(including slippage reported in paragraph 4.1.1) for the General Fund of £6,990,690.

4.3 Capital Programme – General Fund Resources

4.3.1 The July MTFS report identified the use of the capital reserve for General Fund expenditure which has been generated from a number of resources. This does assume the annual use of General Fund under spends (£350,000) which have yet to be identified and would not be reported to the Executive until July 2015. If the under spends do not materialise there are sufficient unused capital reserves in the short term.

4.3.2 The Council will have estimated 2015/16 average investment balances of £40Million (due to higher HRA balances), which currently obviates the need for external borrowing for prior years up to and including 2014/15 during 2015/16. This means there should be no additional General Fund interest costs in 2015/16, however, if interest rates start to rise and forecast cash flows for the medium to longer term indicate lower investment balances then the Assistant Director (Finance) may consider external borrowing. Should the cost of borrowing budgets not be required in year it is recommended that the balance is transferred to the capital reserve at the year-end.

4.3.3 The resources which have been used to create the 2015/16 capital reserve are shown in the table below.



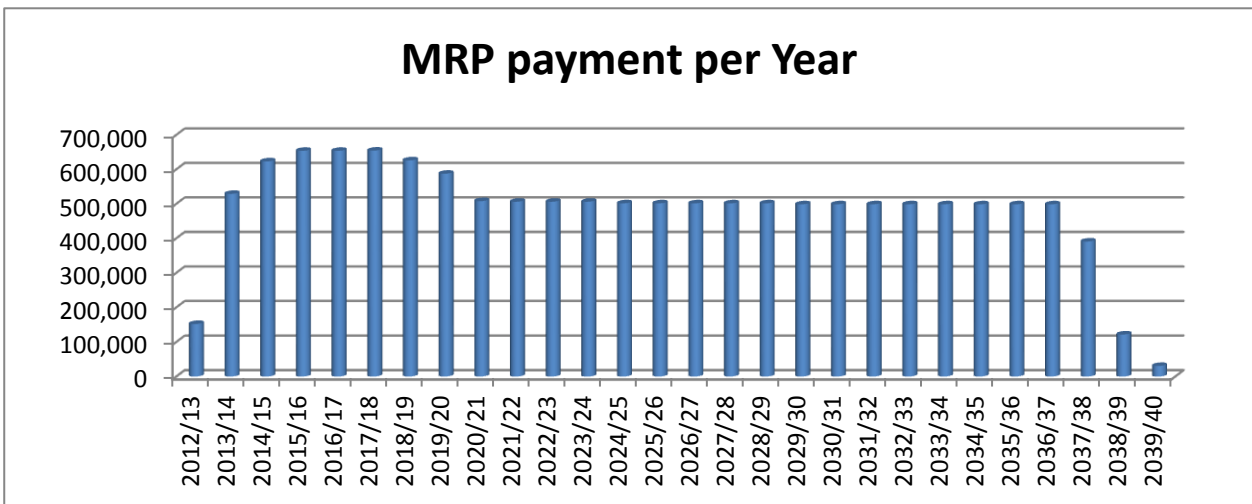
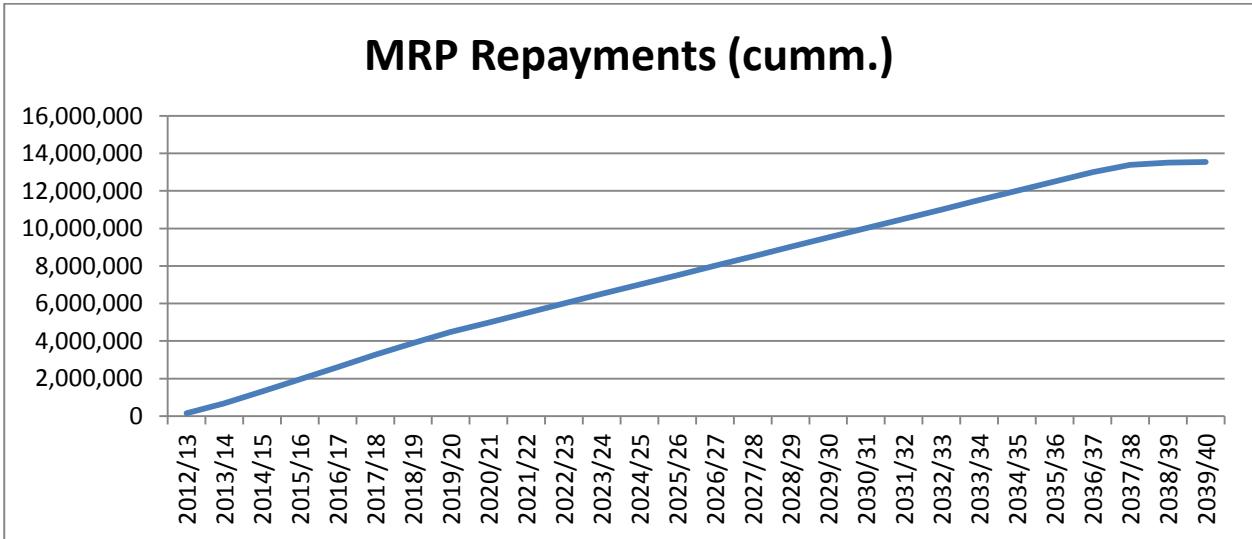
4.3.4 The capital reserve has been used to fund 21% of the 2015/16 capital programme and because the revised Capital Strategy has lower levels of expenditure than previously, there are unused resources in the reserve. These have been updated since the January report to the Executive and are summarised in the table overleaf.

Capital Reserve	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Opening balance	(510,502)	(1,317,880)	(1,801,512)	(2,352,854)	(2,814,196)
In Year Resource	(935,000)	(1,900,000)	(1,915,000)	(1,915,000)	(1,915,000)
Used in Year	127,622	1,416,368	1,363,658	1,453,658	1,692,908
Closing Balance	(1,317,880)	(1,801,512)	(2,352,854)	(2,814,196)	(3,036,288)

- 4.3.5 It is the Chief Finance Officer's view that the reserve needs to build up balances to take account of unexpected capital items and a fluctuating capital programme. Members will also be aware that the investment bid for the garages (£4.47M additional spend 2015/16-2018/19) is not in the programme.
- 4.3.6 At the January 2015 Executive the capital update report projected £2,575,200 of capital receipts to be realised in 2015/16, this remains unchanged in the final report. Capital receipts fund 38% of the 2015/16 General Fund programme, but if these receipts do not materialise in year, the capital reserve will need to be used.
- 4.3.7 The July 2014 MTFS update had assumed a level of prudential borrowing (£1,085,000) in 2015/16, this was before the value of new capital bids was known and currently borrowing is not required. However this is dependent on whether any significant unforeseen capital expenditure is incurred and when/if the business case is approved for capital investment to the Council's garages, which totals a further £1,450,950 in 2015/16.
- 4.3.8 Since 2011/12 the Council has required £13,542,264 of borrowing (including the estimate for the current year) to fund its capital programme. The Treasury Team have only taken loans of £4,000,000 and the General Fund will have already set aside £1,303,954 of Minimum Revenue Payment (MRP) to meet the borrowing cost by 31 March 2015.

Financial Year	General £	Regeneration Initiatives £	Total £	MRP repaid £	MRP remaining £
2011/12	1,803,028		1,803,028	309,050	1,493,978
2012/13	1,560,314	7,039,448	8,599,762	894,595	7,705,166
2013/14	1,802,457	28,317	1,830,774	78,497	1,752,277
2014/15	0	1,308,700	1,308,700	21,812	1,286,888
Total	5,165,799	8,376,465	13,542,264	1,303,954	12,238,310

4.3.9 The MRP repayment profiles are shown in the chart below for borrowing required for the period 2011/12-2014/15 . This will all be repaid by 2039/40. The amount of repayment is higher in the earlier years because the borrowing is repaid over the life of a capital asset and not all asset lives are 25 years. Where possible shorter life assets are funded from capital receipts to minimise the impact of MRP.



4.3.10 The revised General Fund capital programme and new funding strategy has currently alleviated the pressure of borrowing on the General Fund, however it is likely that 2016/17 onwards are understated and it is key that the capital reserves are built up to prevent a switch back to reliance on borrowing.

4.4 Capital Programme – 2014/15 Housing Revenue Account

4.4.1 The 2014/15 programme is now projected to be £15,397,670. The main variances are summarised in Appendix B and included in the table overleaf.

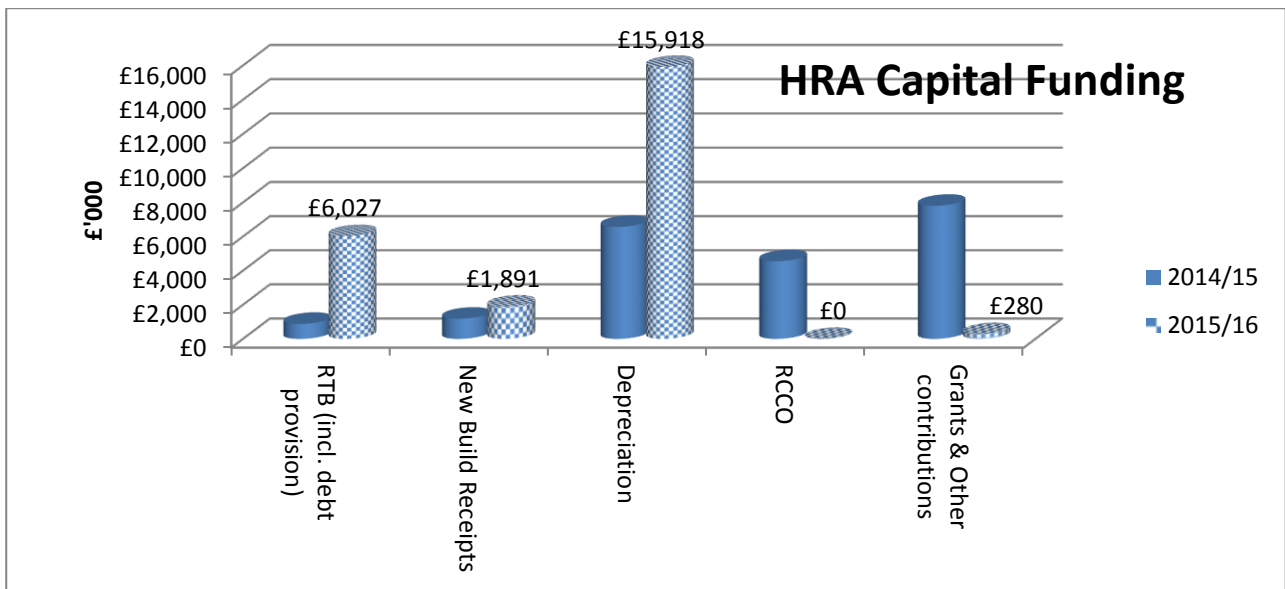
HRA Capital Programme Change to 2014/15 Working Budget				
Cost Centre	Scheme Name	Increase (Decrease) to 14/15 Working Budget	Slippage to 15/16 Working Budget	Reason
		£	£	
KH233	New Build Programme	(1,442,330)	1,442,330	Completion of some open market acquisition will take place after 31st March, even though the purchase process will start before then. This is a risk highlighted in quarterly monitoring reports.
KH209	Archer Road Neighbourhood Centre	(246,640)	246,640	Scheme slippage due to further negotiation with the main contractor.
New 11	Purchase of vehicles	172,000	0	The purchase vehicles for the BMO at a value of £172K from the current lease fleet. This will enable the development of a corporate approach and timescale to the vehicle renewal programme. This approach will also allow time for the housing services future vehicle requirements to be determined and incorporated into the corporate vehicle replacement programme. There will be a reduction in lease costs for the HRA.
	Total	(1,516,970)	1,688,970	

4.5 Capital Programme – 2015/16 HRA

4.5.1 The HRA's 2015/16 capital programme was included in the HRA Business Plan reported to the November Executive. The programme has been updated for the slippage identified above and is detailed in Appendix B.

4.6 Capital Programme HRA Resources

4.6.1 The revised Business Plan assumed the following funding for the 2014/15 and 2015/16 capital programmes in total, as shown in the chart overleaf.



4.6.2 The final HRA budget report identified the increase in the government’s share of pooling receipts by a further £51,948 in 2015/16 and £23,834 in 2016/17 over that assumed within the Business Plan. In addition there has been a reduction in projected debt provision receipts and an increase in new build receipts (which have more restricted use). This is because the profile and number of properties sold per quarter has changed. The impact on 2015/16 is still being assessed and the impact of any changes to receipts will be updated in the next review of the Business Plan in July 2015.

4.6.3 The number of RTB sales to 31 December was 81 which may be higher than the current projection of 98 sales for the year. The projection for 2015/16 remains unchanged at 100 for the year. The estimated retained RTB receipts for 2014/15 and 2015/16 are shown in the table below.

Retained RTB Receipts	Projected 2014/15 £	Business Plan £	Variance. £	2015/16 £	Business Plan £	Variance. £
Right to Buy (25%) Receipts	332,114	332,114	0	346,534	354,858	8,324
New Build Receipts	4,825,640	4,415,341	(410,299)	4,547,940	4,599,888	51,948
Debt Provision Receipts	2,731,862	2,886,911	155,049	3,007,370	3,007,370	0
Total	7,889,616	7,634,366	(255,250)	7,901,844	7,962,116	60,272

(additional balances shown in brackets)

4.6.4 The funding for the HRA capital programme has been adjusted for the slippage identified in paragraph 4.4.1 and is included in Appendix B to this report.

4.7 Deminimus Level for Capital Expenditure 2015/16

- 4.7.1 Accounting best practice recommends that the Council approves a de minimus level for capital expenditure, or a value below which the expenditure would not be treated as capital. This would mean that it would not be recorded on the asset register and would not be funded from capital resources.
- 4.7.2 The limit set for 2015/16 remains unchanged at £5,000, this applies to a scheme value rather than an individual transaction.

4.8 Contingency Allowance for 2015/16

- 4.8.1 The contingency allowance for 2014/15 is £250,000 reflecting the resourcing pressures facing the capital programme. The contingency proposed for 2015/16 remains at £250,000, for schemes funded from capital receipts, capital reserve or borrowing. This is due to the need to manage the cost of the programme on the General Fund. This contingency sum constitutes an upper limit within which the Executive can approve supplementary estimates, rather than part of the Council's Budget Requirement for the year. The limit of £250,000 also applies to HRA capital schemes.

4.9 Feedback from Overview & Scrutiny Committee

- 4.8.1 The Overview and Scrutiny Committee considered the draft Capital Strategy at its meeting held on the 21 January 2015. Members received a presentation by the Assistant Director (Finance) on the Draft Capital Strategy and had nothing to add to the report.

5 IMPLICATIONS

5.1 Financial Implications

- 5.1.1 This report is financial in nature and consequently financial implications are included in the above.

5.2 Legal Implications

- 5.2.1 None identified at this time.

5.3 Policy Implications

- 5.3.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across council services and the overall Capital Strategy.

5.4 Equality and Diversity Implications

- 5.4.1 This report is of a technical nature reflecting the projected spend for the year for the General Fund and HRA capital programme. None of the budget changes reported will change any existing equalities and diversity policies and it is not

expected that these budget changes will impact on any groups covered by statutory equalities duties.

5.5 Risk Implications

5.5.2 The significant risks associated with the capital strategy are largely inherent within this report and as shown below.

5.5.3 A significant risk exists that there are insufficient capital reserves to fund in year urgent works without the need to prudentially borrow. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum, however, it cannot be forecast fully.

5.5.4 There are risks around achieving the level of disposals budgeted for. The estimated dates of receipts very much rely on a series of steps being successful at estimated dates, for instance tenders and planning meetings. We manage this risk by reviewing and updating the Strategy quarterly, including resources. This will enable action to be taken where a receipt looks doubtful.

5.5.5 There are potential contractual risks around tendering contracts in the current market conditions which indicate increased costs of materials and trades.

BACKGROUND DOCUMENTS

BD1 - Capital strategy Update November 2014 (Executive)

BD2- Draft Capital Strategy January 2015 (Executive)

APPENDICES

Appendix A – General Fund 5 Year Capital Strategy

Appendix B- HRA 5 Year Strategy

Appendix C- General Fund Capital Bids