

Meeting: COUNCIL

Agenda Item:

Portfolio Area: Resources

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Date: 27 February 2008

2008/09 CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE
(Strategic Management Board)

KEY DECISION

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1 PURPOSE

- 1.1 To propose the 2008/09 Capital Forward Plan.
- 1.2 To provide Members with an update on the Council's 5 Year Capital Strategy and to note the ongoing work to bring the Strategy into balance.

2 RECOMMENDATIONS

RECOMMENDATIONS TO EXECUTIVE

- 2.1 That Council be recommended to approve the 2008/09 General Fund Forward Plan proposals totalling £2,368,550, as detailed in Appendix A, for incorporation into the 5 year Capital Strategy, subject to, no General Fund Schemes within the Strategy, that are not currently contractually committed and are of a value of less than £250,000 (the threshold set in Financial Regulations for Schemes to be approved by the Executive) shall be committed without the approval of the Strategic Director (Resources).
- 2.2 That Council be recommended to approve the 2008/09 Housing Revenue Account (HRA) Capital Programme totalling £6,671,000, as detailed in Appendix B.
- 2.3 That Council be recommended to approve the Revised 2007/08 Housing Revenue Account Capital Programme totalling £14,253,310, as detailed in Appendix B.
- 2.4 That Council be recommended to approve the updated 5 Year Capital Strategy, as detailed at Appendix C, incorporating :

- i. The 2008/09 General Fund Capital Forward Plan,
- ii. The 2007/08 Revised and 2008/09 HRA Capital Programmes,
- iii. The addition of £2,700,000 of ICT Capital Schemes,
- iv. The incorporation of £6,276,000 of programme and resources in respect of Growth Area Funding 2008,
- v. Approved Capital Supplementary Estimates,
- vi. The cancellation of Low Priority 5 Schemes totalling £538,000,
- vii. Updated forecasts of resources estimated to become available from small land sales and Right-to-Buy (RTB) sales,
- viii. The addition to the rolling 5 year Capital Strategy of forecasts in respect of the financial year 2012/13.

- 2.5 That the ongoing work of the Corporate Capital Review Group (CCRG) and the Leader's Services Priority Group (LSPG), to bring the 5 year Capital Strategy into balance, be noted.
- 2.6 That Council be recommended to approve a Contingency Sum in the Budget and Policy Framework for 2008/09 of £2,000,000 for the Capital Programme.
- 2.7 That a further report be submitted to the Executive to update the 5 Year Capital Strategy detailing the measures being taken to bring the Strategy into balance over its life.
- 2.8 That the Scrutiny Overview Committee be requested to report its consideration of this report direct to Council.

RECOMMENDATION TO COUNCIL

- 2.9 That the recommendations from the Executive arising from its consideration of this report, be approved. (Note: The recommendations from the Executive are to be detailed in the Council agenda).

3 BACKGROUND

- 3.1 The Fixed Asset base of the authority is valued at around £628 million (31st March 2007), including Council houses valued at £510 million. The Council has been debt free since March 2001. The Council's Capital Programme for 2007/08 amounted to nearly £38 million, primarily financed by capital receipts and the Housing Major Repairs Allowance (MRA).
- 3.2 The Council maintains a rolling 5 Year Capital Strategy that outlines the approved programme, forecast expenditure requirements for subsequent years and the anticipated resources. However, delivery of schemes against approved budgets has proved a problem for the Council over recent years due to a number of contributing factors e.g. staffing resources, over ambitious delivery timescales, procurement delays.
- 3.3 In December 2007 the Council received confirmation from the Department for

Communities and Local Government (DCLG) that it had been awarded a place on the Round 6 Arms Length Management Organisation (ALMO) programme which would allow the Council to access additional funding to achieve the Decent Homes standard in its Council Housing Stock. However, the award is liable to be subject to rephrasing from the original timescale and access to the funding remains dependant upon the timing of Stevenage Homes Limited (SHL) achieving the Two Star Rating in its Audit Commission Inspection. The 2008/09 HRA Capital Programme has, therefore, been based on the core HRA Capital Resources currently available to the HRA. At this stage, the updated Strategy in this report, also, incorporates the HRA on the basis of these core HRA resources only and will be reported back in due course when the details are confirmed to allow the ALMO funding provisions to be accessed and incorporated.

- 3.4 The rolling 5 Year Capital Strategy has been reported to the Executive on a regular basis. The latest update in September 2007 explained that the Strategy through to 2011/12 was in deficit and put forward a number of proposals to seek to bring the strategy into balance. This report provides an update on the Strategy position which, despite further actions being taken and the proposals currently being made, due to further pressures arising the overall Strategy remains in deficit. This report outlines the ongoing work proposed to bring the Strategy into balance.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2008/09 Capital Forward Plan Proposals

- 4.1.1 General Fund Capital Forward Plan – the proposed 2008/09 General Fund Capital Forward Plan of £ 844,050 in 2008/09 and totalling £2,368,550 over the life of the Strategy, is detailed at Appendix A. [For additional information Appendix A2 details those schemes from previous years Capital Programmes that are ongoing or multi year in nature and are currently already provided for in 2008/09 in the underlying Strategy. These ongoing Schemes are not, therefore, re-bid for in the annual Forward Plan process.] Against the background of very limited Capital Resources the newly arising Capital Forward Plan proposals brought forward by officers were limited to high priority and inescapable schemes. The initial proposals were put through a process of robust challenge by the Strategic Management Board (SMB). Appendix A details the final schemes which it is proposed should be adopted as the General Fund Capital Forward Plan for 2008/09 because of their high priority. However, because of the current pressure on capital resources overall it is proposed that commencement of individual schemes will have to be subject to the process detailed at paragraph 4.2.5 below.
- 4.1.2 HRA Capital Forward Plan as proposed by Stevenage Homes Limited (SHL) – the proposed 2008/09 HRA Capital Programme totalling £6,671,000 is detailed at Appendix B. The level of the Programme has been set in accordance with Capital Resources that will be available to the HRA in 2008/09 from the Major Repairs Allowance (MRA) and Supported Capital Expenditure (SCE). These 2008/09 HRA resources are guaranteed and are ring-fenced for use in the HRA. The HRA Programme at this level is therefore recommended for approval. It is anticipated that future years of the HRA Capital Programme will be supplemented with additional ALMO borrowing approvals of some £55million, which can be accessed once SHL has obtained a two star rating in its Audit Commission Inspection. The details of that

additional funding will be added to the Capital Strategy at that time.

4.2 Updated 5 Year Capital Strategy

Attached at Appendix C is the latest update to the 5 Year Capital Strategy. The following issues within the updated strategy are drawn to members attention:

4.2.1 The Strategy reflects the currently approved General Fund and HRA Capital Programmes for 2007/08 together with approved virements and supplementary estimates to date and updated resource assumptions. It incorporates the proposed General Fund and HRA 2008/09 Capital Forward Plans. It also rolls the 5 year Strategy at this stage to bring in forecasts for the year 2012/13.

4.2.2 The Strategy reported to Executive in September 2007 was in deficit to 2011/12 by some £2.8 million. The update to the forecast has increased this deficit to £6.3 million. The update strategy reflects the following main changes since the September Report:

A. Action taken to bring the September Strategy into Balance:

- i. Estimates for receipts from small land sales remain buoyant and are estimated to increase the capital resources by some £2.3million compared to the estimates in September.
- ii. As proposed in the September update of the Strategy further work has been undertaken by the Corporate Capital Review Group (CCRG), and reviewed by the Leaders Services Priority Group (LSPG), that has identified a number of low priority schemes with uncommitted expenditure totalling more than £0.5million, that it is proposed should be cancelled and removed from the Strategy. These Schemes are detailed in Appendix D. With the current pressure on Capital Resources other and newly arising schemes are considered to be of significantly higher priority.

B. At this stage the Strategy as reported in September 2007 would have been very close to being balanced over its life. However, other amendments have also become necessary over recent months that have moved the Strategy back out of balance:

- i. Right-to-Buy (RTB) receipts have continued to reduce. Although the impact of the reducing RTB's on the Council's ongoing Strategy is now more limited, with the Council only retaining 25% of the receipts since the introduction of Pooling, over the life of the Strategy overall RTB income retained is estimated to reduce by £1million compared to the assumptions in September. Members might wish to note that, despite the reduced RTB sales, the Council is estimated to pay some £3million per annum to the Government because of the Pooling mechanism, sums which in themselves would resolve the Council's Capital resourcing problems.
- ii. In order to provide a realistic ongoing programme to ensure the effective maintenance, replacement and development of the Council's essential ICT infrastructure £2.7million has been added to the strategy over its life.
- iii. The proposed 2008/09 General Fund Forward Plan totalling £2.368million over the life of the Strategy has been added.

C. Some further adjustments to the Strategy have also occurred that have had a

broadly neutral impact overall:

- i. Supplementary capital estimates have been approved and added to the Strategy for Schemes in respect of Fairland Valley Paddling Pools and the Refurbishment of the Golf Course Club House. However, it is anticipated that these schemes will be funded from the sale of specific additional asset which have been assumed within Strategy as additional offsetting resource.
- ii. The incorporation of £6,276,000 of programme and resources in respect of Growth Area Funding 2008.
- iii. The proposed 2008/09 HRA Capital Forward Plan totalling £6.671million which is broadly inline with previous forecasts and self funding from within ring-fenced HRA Resources.
- iv. The updated 2007/08 HRA Capital Programme. This reflects a supplementary capital estimate of £193,000 approved at Executive in November 2007, together with a number of proposed virements between individual schemes within the Programme, as detailed in Appendix B. The amended HRA 2007/08 Capital Programme is recommended for approval. It is currently forecast that some £5.9million of the 2007/08 HRA Capital Programme is likely to need to be slipped into 2008/09 and this has been reflected in the updated Strategy.
- v. The Strategy is maintained as a 5 year ongoing rolling forecast. This update of the Strategy rolls forward to now incorporate the 2012/13 financial year, for which the current forecasts are broadly that expenditure will be matched by resources for that year.

4.2.3 Despite the adjustments proposed at 4.2.2 (A) above the overall 5 Year Capital Strategy to 2012/13, as detailed in Appendix C is, as stated, now forecast to be in cumulative deficit of some £6.3 million. More immediately the 2008/09 programme is now forecast in deficit by some £5 million. With current resource levels the overall 5 year programme and more particularly the proposed 2008/09 programme is not sustainable and will need to be reduced further to create a balanced strategy.

4.2.4 The Corporate Capital Review Group (CCRG), has in hand further work to review the proposed 2008/09 General Fund Programme, incorporating the proposed Forward Plan, to reassess all scheme priorities against the anticipated overall future capital requirements and resources. Further schemes will have to be identified to be cancel and / or deferred to immediately bring the 2008/09 Programme into balance and to balance the overall strategy. More realistic phasing of the remaining schemes within the programme must also be determined. The extent to which certain schemes may be de-prioritised has the potential to significantly contribute to balancing the Strategy and ensure that the Council's scarce resources are being directed to achieve its ambitions and priorities. Proposals arising from the CCRG will be referred to the Leader's Services Priority Group for consideration before being reported back to Executive.

4.2.5 Because the proposed 2008/09 General Fund Capital Programme is out of balance, at this stage, it is proposed that the following process will have to be adopted until the work to bring the Programme back into balance is completed by the CCRG, reviewed by LSPG and approved by the Executive. It is proposed that, approval to proceed with Schemes in the proposed General Fund Programme valued at less than £250,000, that are currently not contractually committed, will be delegated, for

the time being, to the Strategic Director (Resources). The SD will thereby ensure that in the early part of 2008/09 capital commitments are not entered into that exceed the available capital resources. The SD will work with the CCRG and LSPG to determine essential and highest priority schemes, to approve them to commence at the earliest opportunity, and where possible not to unduly delay progress. Under current Financial Regulations schemes with a value of more than £250,000 require individual Executive approval to the details of the precise scheme. The Strategic Director will therefore incorporate these schemes as part of his overall control mechanism considerations and make appropriate approval recommendations when individual schemes are likely to be reported to Executive.

- 4.2.6 Experience over many years would probably indicate that overall slippage within the Capital Strategy is likely to be such that resourcing actual spend in 2008/09 may not prove to become a problem. But whilst the Programme remains significantly out of balance, likely slippage cannot be relied upon and the process proposed above must be implemented to ensure that no danger of over committing resources exists and that schemes are progressed or deferred in priority order.
- 4.2.7 It should be noted that the strategy is totally dependant upon realising future capital receipts, their level and timing. This income is not guaranteed until each asset is negotiated in considerably more detail. This aspect of the 5 Year Capital Strategy is kept under review as it has the potential to significantly impact on the Strategy both positively and negatively. The Strategy is still particularly dependant upon receipts assumed from the West of Stevenage and small land sales. Any changes to the estimated value or timing of these receipts may create the need for further re-phasing of the current programme to keep it in balance. Even when the Strategy is brought into balance it is likely that annual programmes will have to be closely controlled and individual approvals to proceed only given as specific annual resources are realised.
- 4.2.8 The Capital Strategy now provides a Corporate Framework within which the use of Capital Resources, both Financial and Physical, can be co-ordinated and allocated in accordance with the Council's aims and objectives. This ensures that the Council's financial investment is judicious, by being directed at specific areas that can maximise its impact on services and produce the most effective outcomes and Best Value for the Community, within its limited resources. In addition the Strategy is supported by a wide range of consultation with our partners and community, which has better informed both senior officers and members of aspirations and needs for potential capital investment in order to achieve our overall corporate aims and objectives.
- 4.2.9 Whilst it is proposed that the Budget and Policy Framework should contain a contingency allowance of £2million, against the background of the current Strategy, any use of this contingency during 2008/09 will need to be very carefully considered.

5 IMPLICATIONS

5.1 Financial Implications

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

5.2 Legal Implications

None identified at this time.

5.3 Policy Implications

The approval of the revised budget framework includes a link for the Councils 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.

BACKGROUND DOCUMENTS

- Capital Strategy Report (Executive September 2007)
- 2007/08 General Capital Forward Plan Report (Executive December 2006)
- 2007/08 HRA Capital Forward Plan Report (Executive March 2007)

APPENDICES

Appendix A – Proposed General Fund 2008/09 Capital Forward Plan

Appendix B – Proposed HRA 2008/09 Capital Programme and Revised 2007/08 Programme.

Appendix C – The Updated 2008/09 5 Year Capital Strategy

Appendix D - Proposed List of Low Priority 5 Capital Schemes to be removed from the Capital Strategy.