Part I – Release to Press

Meeting: **Executive**
Portfolio Area: Resources
Date: **10th February 2010**

Agenda Item:
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2010/11 CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

Author – Clare Fletcher Ext 2933
Lead Officer – Scott Crudgington Ext 2185
Contact Officer – Clare Fletcher Ext 2933

1. PURPOSE

1.1 To provide Members with an update on the Council's 5 Year Capital Strategy including the Forward Plan bids approved at the November Executive.

1.2 To provide Members with an update on the resources available to fund the Capital Strategy.

2. RECOMMENDATIONS

2.1 That Council be recommended to approve the revised 2009/10 and the 2010/11 General Fund capital programme, as detailed in Appendix A

2.2 That Council be recommended to approve the revised 2009/10 and the 2010/11 Housing Revenue Account (HRA) Capital Programme as detailed in Appendix A.

2.3 That Council be recommended to approve the updated forecast of resources as summarised in the Appendix A.

2.4 That Council be recommended to approve the Capital Forward Plan Bids detailed in Appendix B.

2.5 That the ongoing work of the Corporate Capital Review Group (CCRG) and Members, 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 2010/11 of £500,000 for the Capital Programme.

2.7 That Council be recommended to approve a de minimus level of £5,000 for expenditure qualifying as capital.

2.8 That the Scrutiny Overview Committee be requested to report its consideration of this report direct to Council.

3. BACKGROUND

3.1 The Council maintains a rolling 5 Year Capital Strategy that outlines the approved programme, forecast expenditure requirements for subsequent years and the anticipated resources. In the past the capital programme has been affected by the ability to complete schemes within the Strategy leading to significant slippage in the capital programme.

3.2 Since 2008/09, the focus on the Strategy has been on a shortfall in resources as the approved programme exceeded the capital resources available. This was compounded by diminishing land receipts in the wake of the recession. To put this in perspective, the cost of development land per acre has fallen from an average of £1.1million per acre in 2007/08 to £750,000 in 2009/10. Right to buy sales (of which the council keeps 25% to spend on capital), have fallen from 37 sales in 2007/08 to 10 so far this year).

3.3 Members and officers have taken decisive action to bring the Capital Strategy back into balance by deferring or deleting schemes within the programme based on a prioritisation of need. This has been achieved by special Member groups and the Corporate Capital Review Group (CCRG) and over £11.5million has either been deleted or deferred from the capital programme.

3.4 Despite all the work officers and Members have done in ensuring the Strategy is funded, Council's resources available have decreased from £21,579,000 (31/3/2007) to £5,443,760 (31/3/2009), in addition to the £6,122,000 set aside for investment interest generation.

3.5 The initial draft 2010/11 capital programme was included within the Capital Strategy Report presented to the December Executive and scrutinised by Members on the 17 December 2009. The 2009/10 revised capital programme totalled £31,262,400 and the 2010/11 capital programme totalled £24,211,180, including Forward Plan bids of £436,000 for 2010/11.

3.6 The 2009/10 capital programme included Decent Homes funding of £11,000,000 which the Council was able to access as Stevenage Homes Limited (SHL) obtained two stars in their inspection in February 2009. Despite some uncertainty about future years' allocations of decent homes funding, the Council was notified in January of their 2010/11 allocation.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2009/10 CAPITAL PROGRAMME

4.1.1 The 2009/10 revised **General Fund** capital programme is projected to be £9,569,920. This is £2,429,100 lower than the working budget approved in December. The main reason for the reduction in expenditure is programme slippage of £2,157,350 into 2010/11. The remaining under spend of £271,750 relates to a reduction in the final cost of the Buisness Technology Centre extension of £230,000 (KR115, funded from capital receipts) and a budget of £41,750 no longer required for Town Centre regeneration, housing (KE245, funded from potential developer contributions).

4.1.2 The 2009/10 revised **HRA** capital programme is projected to be £19,263,380, there has been no change from the December report. Stevenage Homes Limited (SHL), who manage the HRA capital programme on behalf of the Council are confident that the capital programme will be spent in line with the approved working budget, (£9,030,022 has been invoiced to date).

4.1.3 The number of properties estimated by SHL to meet the decent homes standard is detailed in the table below. The number of properties made decent this financial year is 725, with a projected total of 1,000 by the year end.

Decent Homes revised projection figures at 1st January 2009

Year	No. of non-decent properties (no/%)	Properties Becoming Non Decent in Year (no.)	Adjusted Non Decent Homes (no.)	Estimated Properties made decent in year (no)	Year End No of Properties Not Decent (no/%)
2009	3956 (47%)	214	4170	1000 (725 to 31/12/2009)	3170 (38%)
2010	3170 (38%)	326	3496	1200	2296 (28%)

4.2 2010/11 CAPITAL PROGRAMME

4.2.1 The 2010/11 **General Fund** capital programme includes forward plan bids of £436,000 (gross £873,500, less grant funding of £437,500). This is £40,000 lower than reported in December. This is because additional grant monies have been obtained from the Department for Environment, Food and Rural Affairs (DEFRA). These forward plan bids (Appendix B) are recommended for approval, £400,000 of the bids support General Fund revenue savings of £244,300 in 2010/11, which increases for future years.

4.2.2 The 2010/11 capital programme also includes slippage in the capital programme of £2,157,350, (see also paragraph 4.1.1). The total cost of the 2010/11 capital programme is £17,933,940, which Members are recommended to approve.

4.2.3 The 2010/11 **HRA** capital programme includes no forward plan bids and no slippage from 2009/10. The total cost of the 2010/11 capital programme is £17,933,940, which Members are recommended to approve

4.2.4 The HRA capital programme includes decent homes funding of £11,000,000, the Council had not received confirmation of the Supported Capital Expenditure allowance (SCE) in 2010/11. An assumption has been made in the Capital strategy this will be received in line with the Decent Homes bid proposal of £560,000.

4.2.5 The Major Repairs Allowance (MRA) included in the 2010/11 capital programme was £6,300,000, the draft subsidy determination figure is actually £6,433,940. This means the 2010/11 capital programme has been increased by £133,940.

4.3 CAPITAL RESOURCES AVAILIABLE TO FUND THE CAPITAL STRATEGY

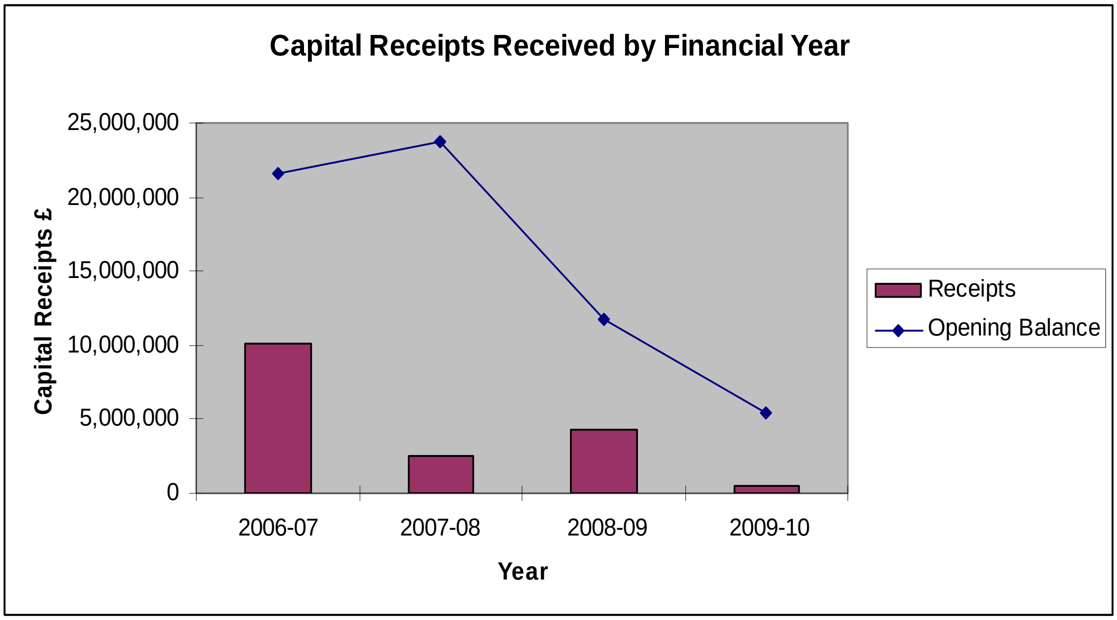
4.3.1 In the December report 2009/10 capital receipts of £2,278,710 were anticipated to be realised in year. This projection has been reduced by £1,232,710 to £1,046,000, this is because;

- several land sales are now projected to be realised in 2010/11
- minor land sales are slightly lower than projected
- right to buy (RTB) sales, discounts repaid and mortgage payments are slightly higher than projected. 10 RTB properties have been sold to date which is

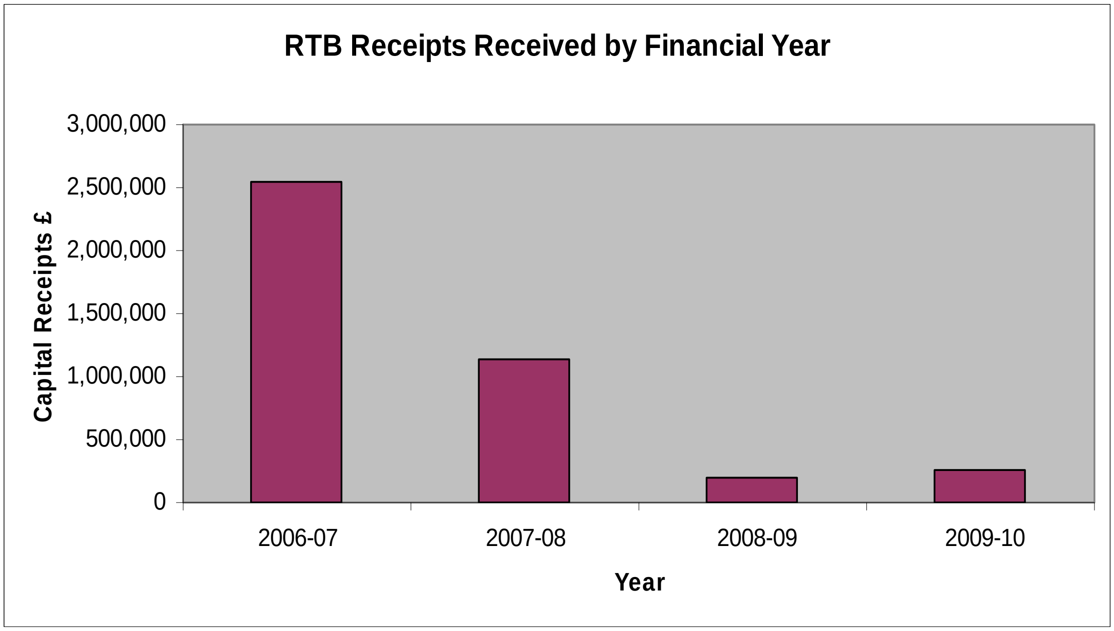
higher than the 7 properties sold in 2008/09, however the average realisable sale value has reduced between the 2 financial years.

4.3.2 In the December report 2010/11 capital receipts were estimated to be £4,199,390, this has increased by £1,218,710 to reflect land sales that were originally anticipated in 2009/10, but are now projected to be realised in 2010/11.

4.3.3 The graph below illustrates how the cumulative level of available capital receipts has declined year on year, similarly receipts received since 2006/07 have also declined. The 2008/09 in year capital receipts total was increased by the Building Schools for the Future receipt of £3,750,000.



4.3.4 The capital receipt assumptions have been updated since the December Strategy. Receipts relating to the West of Stevenage have been excluded for the period up to 2013/2014. RTB (including discount and mortgages repaid) receipts have also been revised down to £500,000 from £1million for 2010/11 onwards. To achieve £500,000 in 2010/11 will still require an improvement in sales compared to the current year. The graph below illustrates RTB receipts (net of pooling charges) over the last four years.



4.3.5 For the years 2007/08 and 2008/09, capital receipts have funded 43% and 49% of the capital programme respectively. in 2009/10 this has reduced to 32% (excluding decent homes), with the majority funding the General Fund programme. The reduction in the use of capital receipts is a result of the deferrals programme.

4.3.6 The Updated Capital Strategy (Appendix B) shows that the 2010/11 capital programme has surplus receipts of £257,830, this represents 0.95% of the total programme for 2010/11 and would be insufficient to contain any significant overspends or new schemes. The level of resources available raises a number of issues and risks which officers will seek to monitor through the financial year, these are:

- There is no additional resources to fund any overspends which could occur during the financial year.
- There is a risk that capital receipts will not be realised in the year, resulting in the need to borrow.
- Any additional schemes identified for inclusion in the 2010/11 capital programme will require a deferral/virement from an existing scheme, unless there is headroom in the General Fund to borrow.
- There is no allowance for future years forward plan bids.
- Stock condition surveys have identified a significant amount of expenditure required to the Council's 400 buildings which is in addition to that included in the current capital programme.
- There is a significant list of deferred schemes from 2007/08-2009/10.

4.3.7 Officers are seeking to mitigate the risks identified above by:

- Reporting capital programme updates to Members as a result of the work of the CCRG. The programme is reported quarterly to the Executive.
- The 2010/11 General fund Medium Term Financial Strategy (MTFS) includes an allowance to borrow in 2011/12.

- Ensuring the link between the Asset Management Strategy and the Capital Strategy.

4.3.8 The Council is responsible for the maintenance and upkeep of nearly 7,000 garages, its car parks and over 400 properties including Daneshill House. The Capital Strategy allocates just over £1.1million next year for works arising from surveys, Disability Discrimination Act and risk assessments. This is the minimum investment required to keep them wind and weather-tight and safe to use over the next year. To keep the properties operational over the following five years will require additional capital in the order of £10million to £11million. Some of these buildings are income generating and support the General Fund budget.

4.3.9 The cost of borrowing to fund the resources shortfall could be accessed from the Public Works Loan Board (PWLB). The current interest rate for borrowing, over 25 years is 4.64% (18 December 2009). This would mean a cost of £86,400 for every £1million borrowed (full year cost). As a result Strategic Management Board have commissioned a fundamental review of our Asset Management Strategy in order to rationalise and re-focus our estate. There is likely to be some difficult choices to be made, however, it is clear we cannot maintain the size of the estate as it is now. The Chief Executive will bring forward the revised strategy in the summer, although we will consult with portfolio holders as it is being drafted.

4.4 DEMINIMUS LEVEL FOR CAPITAL EXPENDITURE 2010/11

4.4.1 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.

4.4.2 The CCRG have considered this and recommend a value of £5,000, this applies to a scheme value rather than an individual transaction. Without a de minimus level the Council may purchase assets from within its General Fund or HRA with a life of more than one year, which would qualify that expenditure as capital and a requirement to record the asset.

4.5 CONTINGENCY ALLOWANCE FOR 2010/11

4.5.1 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.

4.5.2 Whilst it is proposed that the Budget and Policy Framework should contain a contingency allowance the 2009/10 contingency allowance of £2million seems disproportionate to resources available. The contingency proposed for 2010/11 is £500,000, against the background of the current Strategy, any use of this contingency during 2010/11 will need to be very carefully considered. 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

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 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.

5.4 Equality and Diversity Implications

5.4.1 All services identified within the report have their own Equalities Impact Assessments, which are reviewed when appropriate.

6. BACKGROUND DOCUMENTS

Capital strategy Update 16 December 2009 (Executive)

7. APPENDICES

Appendix A -Forward Plan Bids 2010/11
Appendix B – 5 Year Capital Strategy