Part I – Release to Press

Meeting: **EXECUTIVE**

Council agenda Item: **14**

Portfolio Area: Resources

Date: **8 FEBRUARY 2011**

2011/12 CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE
KEY DECISION

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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 2010/11 and the 2011/12 General Fund capital programme, as detailed in Appendix A to this report.

2.2 That Council be recommended to approve the revised 2010/11 and the 2011/12 Housing Revenue Account (HRA) Capital Programme as detailed in Appendix A to this report.

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

2.4 That the ongoing work of the Corporate Capital Review Group (CCRG) and Members, to bring the 5 year Capital Strategy into balance, be noted.

2.5 That Council be recommended to approve a Contingency Sum in the Budget and Policy Framework for 2011/12 of £250,000 (relating to schemes funded from capital receipts or borrowing) for the Capital Programme.

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

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 monies available. This was compounded by diminishing land receipts in the wake of the recession and the cost of development land per acre has fallen from an average of £1.1million per acre in 2007/08 to £750,000. Right to buy sales (of which the council keeps 25% to spend on capital), have fallen from 37 sales in 2007/08 to 11 as at 31 December 2010).

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. However, the inability to sell surplus assets to fund the capital programme has meant the need to borrow £800,000 for 2010/11 and £2,000,000 for years 2011/12 to 2013/14. The General Fund Medium Term Financial Strategy (MTFS) has been updated to reflect the need to borrow and approved by Members at the November Executive.

3.4 Despite the inclusion of £800,000 of borrowing to fund the 2010/11 General Fund capital programme there was still an in year deficit of £394,991 and schemes of £497,169 were put on hold and subsequently slipped into the 2011/12 programme, to mitigate any shortfall in receipts. Members were also advised in January that there was 2010/11 scheme slippage of £3,420,720 which predominately related to the Growth Area Funded (GAF) schemes and which was projected to be spent in 2011/12.

3.5 Members were also advised at the November Executive that the capital programme for 2011/12 will still be heavily reliant on capital receipts and schemes will not be able to start, until in year sales have been realised. Members approved the prioritising of schemes funded from receipts, schemes were ranked A to D, A being the highest priority and D being the lowest. The highest priority schemes totalled £1,733,499 in 2011/12 and could be met from borrowing.

3.6 Members were advised at the January Executive that the total resources as at 1 April 2011 were only sufficient to fund the capital schemes ranked priority A. All other schemes would have to be put on hold until in year receipts were realised. At the January Executive Members approved a review of the relative priority ranking of schemes to be completed by Strategic Management Board and relevant Portfolio Holders prior to final approval of the capital programme at Council. Changes to priorities since the January Executive are contained within this report.

3.6 The HRA capital programme is predominately funded from Decent Homes funding (£11,000,000). The Government has announced as part of the Comprehensive Spending Review that there will be changes to the method of allocation for future years. The scheme is now open to all Local Authorities with housing stocks to bid for funding and the overall funding available has reduced.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2010/11 CAPITAL PROGRAMME

4.1.1 The 2010/11 revised **General Fund** capital programme is projected to be £7,266,150. This is £30,150 higher than the working budget approved in January. There are two reasons for the increase in expenditure, firstly, is the projected increase in the mandatory disabled facilities grants awarded. This was identified as a potential pressure earlier in the year and the spend is demand led. An increase of £75,000 is projected in year. Secondly, the scheme to improve the football pitch at Ridlins has slipped in 2011/12.

4.1.2 The 2010/11 revised **HRA** capital programme is projected to be £17,638,910, there is no change in the overall value of works, however, a number of virements between the types of decent homes expenditure are included for approval. These changes arise as surveys are completed and the types of works relating to particular properties are calculated.

4.2 2011/12 CAPITAL PROGRAMME

4.2.1 The 2011/12 **General Fund** capital programme includes no forward plan bids. Officers have recognised that with a considerable proportion of the programme on hold, inclusion of any new schemes would jeopardise the existing programme. Members were advised at the January Executive that the Capital Strategy needs to be updated by a revised ICT, Asset Management and Fleet Replacement Strategy, so that Members and officers can ascertain the level of futures years demand building up caused by deferring significant elements of the programme and the programme for 2014/15 added to the Strategy.

4.2.2 The Fleet Replacement schedule has been updated to replace vehicles at the end of their life rather than their expected life. However, there is a spike in spend in 2014/15 as result of purchasing a number of freighters all in the same year. An assessment will be done of those vehicles to review their anticipated lives prior to replacement. The changes to the Capital Strategy, as a result of the review of the Fleet Replacement schedule, are shown in the table below.

Table 1 - Fleet Management Projections

	2011/12 £'000	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Revised Fleet Replacement	195	581	169	859
Included in January Strategy	755	320	549	0
Variance	**(560)**	**+261**	**(380)**	**+859**

4.2.3 A refresh of the ICT Strategy is currently being completed and the indicative findings from the review are shown in the table below. These projections have not been included in the Capital Strategy as the Strategy is not yet completed. However in 2012/13 there is a potential pressure relating to window XP which may no longer be supported. Members have approved the implementation of an ICT earmarked reserve funded from the General Fund (£75,000 annually); this could be used to offset some of the additional costs.

Table 2 – ICT Replacement Projections

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
ICT Strategy	358	270	270	270
Included in Strategy	358	542	142	142
Variance	**0**	**+272**	**(128)**	**(128)**

4.2.4 In addition to the costs identified above for ICT replacement, expenditure arising from the Asset Management Strategy will need to be included in the Capital Strategy at future date. Officers will also be asked to review the replacement of play equipment over the coming year, to identify the works required to play areas which is not within the Asset Management Strategy remit.

4.2.5 The 2011/12 General Fund capital programme is now estimated to be £9,243,480, which is £705,300 lower than the £9,948,780 reported at the January Executive. The reasons for the reduction are identified in the table below.

Table 3- 2011/12 General Fund Programme Changes

General Fund Programme changes:	**2011/12 Variance £**
Slippage of Ridlins pitch improvements to 2011/12	+44,850
Revisions to Fleet Replacements	(560,000)
Reduction in Residential Parking Required 2011/12 (Appendix B)	(50,000)
Reduction in Home Improvement Grants budget (Appendix B)	(70,000)
Identified cost for Market Square works (Appendix B)	+50,000
Removal of sewer works contingency budget (appendix B)	(60,000)
Deferral of gym equipment to 2012/13 (appendix B)	(50,000)
Deletion of residual budgets	(4,060)
Deletion of maps budget (Appendix B)	(6,090)
Net 2011/12 Programme Reduction	**(705,300)**

4.2.6 All 2011/12 schemes which are funded, (or in part), by capital receipts or borrowing have been prioritised. Schemes are ranked A to D, A being the highest priority and D being the lowest. These rankings are shown in the Capital Strategy (Appendix A) and have all been reviewed by the Members' group (Appendix B). The total value of category A schemes is £3,176,220 of which £2,444,989 is funded from borrowing and capital receipts, the remaining £686,381 from grants. All category A schemes can commence as at 1 April 2011, there is a small shortfall of £104,560 between category A schemes and the total of in year borrowing and receipts in hand. It is anticipated that £125,000 of right to buy receipts will be received in the first quarter of 2011/12 which will fund the shortfall in priority A ranked schemes. All other schemes will not be able to commence until the associated in year capital receipts are received.

4.2.7 The 2011/12 **HRA** capital programme includes forward plan bids of £230,000 which are predominately related to ICT improvements. All these bids are funded from the HRA and included within the final HRA 2011/12 rent setting report approved at the January Extraordinary Council meeting.

4.2.8 Following the Comprehensive Spending Review, it has become clear that there will be a significant reduction in the funding for the Decent Homes programme. The exact level of allocation for SBC is not likely to be known before February 2011, however; indications suggest an overall (UK) reduction (against the baseline) as follows:

Year	**% reduction in Government funding for the Decent Homes Programme**
2011/12	(58%)
2012/13	(43%)
2013/14	(38%)
2014/15	(5%)

This equates to an average reduction of 36.8% over the four years. This £1.6bn funding is also likely to be required to spread further as it is now open to all housing stock owning local authorities to bid for, in addition to two star ALMOs.

4.2.9 The HRA capital programme included in the January report included an assumption for decent homes funding of £6,952,000 (reduction of 36.8%), a reduction of £4,048,000 on the £11,000,000 contained within the previous Strategy. The total included in the January Strategy is £8,645,000 which is an increase of £1,693,000 on the previous assumption. This higher figure is based on the actual bid submitted to the Government for the 2011/12 round of decent homes funding. This is lower than the original decent homes funding of £11,000,000 per year for five years which the Council had been previously been notified of. Any significant reduction in the amount of decent homes funding would have a significant impact on the delivery of the existing programme and potentially the standards approved by Members. SHL are currently working on different scenarios and once the funding is know officers will report back to Members.

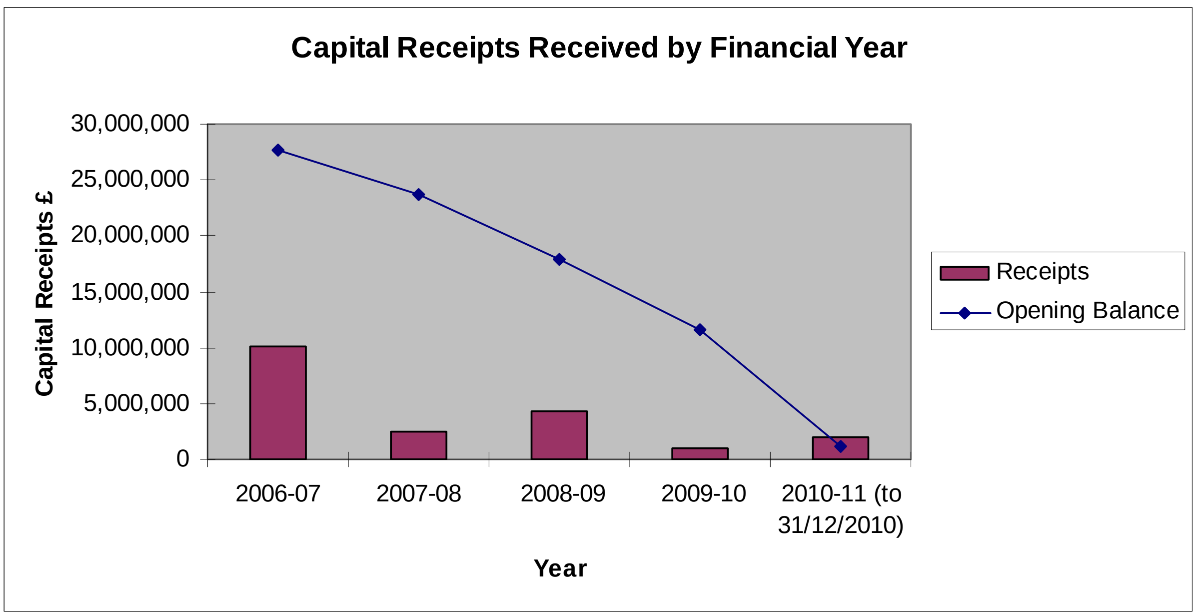
4.2.10 The Major Repairs Allowance (MRA) included in the 2011/12 capital programme is £6,590,596. This is the final subsidy determination figure and is £38,660 higher than the provisional figure and the HRA programme has been increased by this amount.

4.3 CAPITAL RESOURCES AVAILABLE TO FUND THE CAPITAL STRATEGY

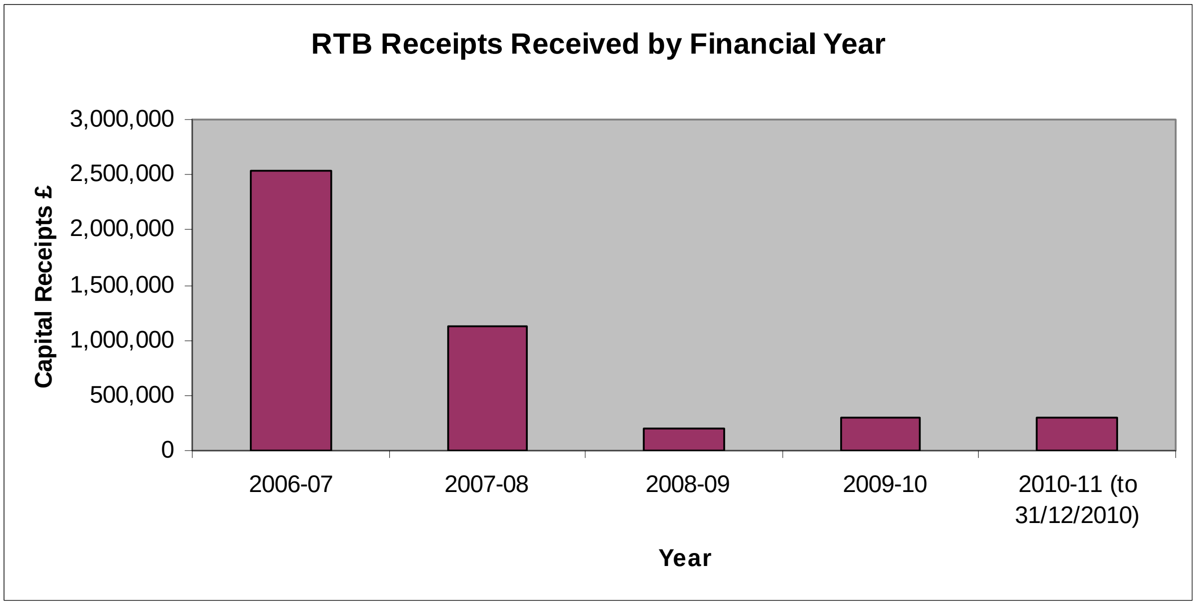
4.3.1 **Capital Receipts**- The projection of 2010/11 capital receipts receivable in year remains unchanged from the January report at £1,582,514 this was slightly lower than the November projection by £11,068.

4.3.2 In the January report capital receipts for 2011/12 were estimated to be £2,998,000 which was £1,062,000 lower than the November report, reflecting land sales that were originally anticipated in 2011/12, but are now projected to be realised in 2013/14. This estimate remains unchanged.

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).

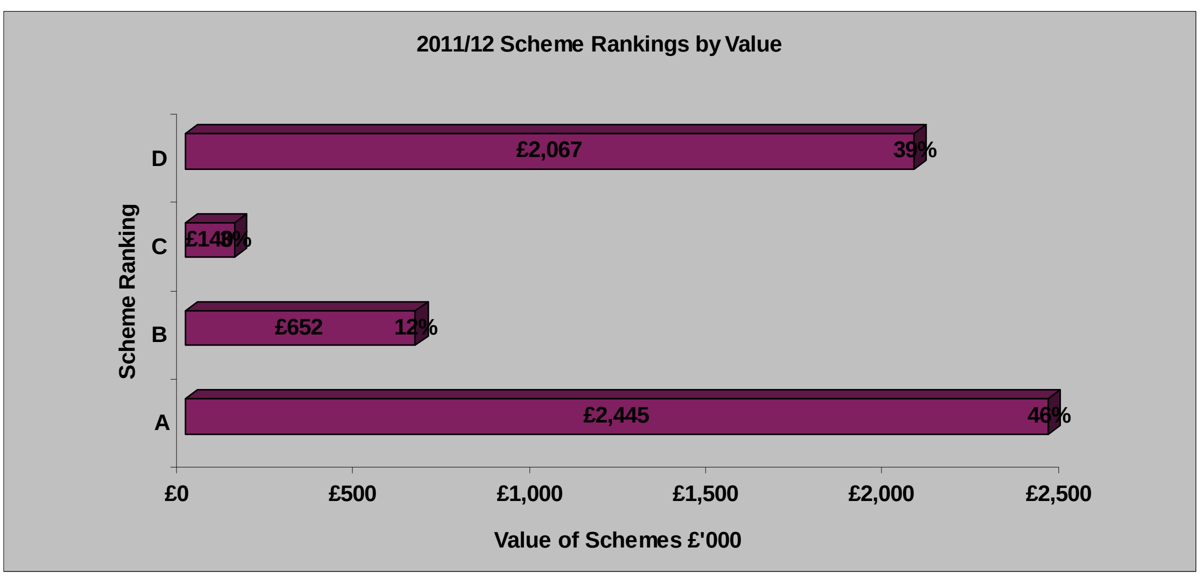


4.3.4 The capital receipt for 2011/12 assumes Right to Buy (RTB) sales (including discount and mortgages repaid) of £500,000. To achieve £500,000 in 2011/12 will require an improvement in sales compared to the current year. The graph below illustrates RTB receipts (net of pooling charges) over the last five years.

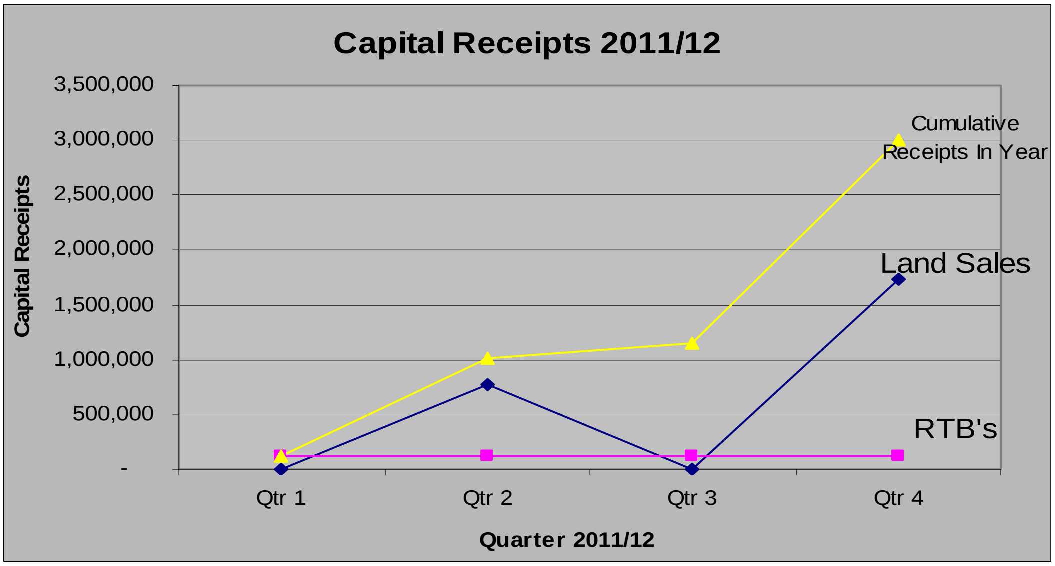


4.3.5 The Updated Capital Strategy (Appendix A) shows that the 2011/12 capital programme has a small surplus of £33,881; this is an improvement on the deficit reported in January of £641,269. The category A ranked schemes require SBC funding of £2,444,989. The combined 2011/12 borrowing and receipts in hand projected for the 1 April 2011 only totals £2,340,430, leaving a shortfall of £104,560. The shortfall can be funded from receipts projected for the first quarter of 2011/12.

4.3.6 All other schemes will need to be held until receipts become available or the level of borrowing in year increases. The chart below summarises the value of schemes funded from capital receipts by category. Only 44% of the 2011/12 schemes funded by SBC (in whole or part) have the funding available as at 1 April 2011. However, as a result of the work of officers and the Members LSPG group, all schemes in the 2011/12 programme now have projected funding in 2011/12.



4.3.7 The projected profile of the receipts due for 2011/12 (£1.85million of the £3million receipts) are projected to be received in the fourth quarter of next year. This means that the majority of schemes ranked D will be unable to commence until January 2012 at the earliest. This is illustrated in the chart below:



4.3.8 The CCRG group will be meeting monthly to review the receipts received and release schemes. Members will be updated quarterly in the Capital Strategy Updates to the Executive. An estimated schedule of when schemes can be released is shown below.

Schemes	**Funded from capital receipts/ borrowing**	**Capital Receipts/ borrowing as at 1 April 2011**	**Quarter 1**	**Quarter 2**	**Quarter 3**	**Quarter 4**	**Total**	**Shortfall in Resources**
A	2,445	2,340	105	0	0	0	2,372	0
B	653	0	20	632	0	0	826	0
C	140	0	0	140	0	0	140	0
D	2,067	0	0	121	125	1,855	2,001	(34)
	5,305	**2,340**	**125**	**893**	**125**	**1,855**	**5,338**	**(34)**

4.3.9 The level of resources available raises a number of issues and risks and the current Capital Strategy is a holding position for 2011/12 and is not sustainable in the long term. Officers will seek to monitor through the financial year, these are:

- The Asset Management Strategy, play equipment and ICT Strategy need to be updated and the level of resources required to be identified. Officers have been asked to refresh the financial implications of the Strategies so that the level of the future funding gap can properly be identified. This will be included in a future update to the Capital Strategy.
- All schemes categorised as B to D will not be able to commence on the 1 April 2011. Furthermore there is 2012/13 deficit in the Strategy.
- 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 further need to borrow, with the associated pressure on the General Fund.
- Any additional schemes identified for inclusion in the 2011/12 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 2007/08-2010/11.

4.3.10 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 General Fund Medium Term Financial Strategy (MTFS) includes an allowance to borrow in 2010/11 onwards.
- Ensuring the link between the Asset Management Strategy, Fleet Replacement and ICT Strategy.
- A growth bid of £75,000 has been included in the General Fund budget report to allow for a ICT reserve to be set up. There are considerable ICT costs anticipated for future years which are not included in the current capital programme and for which no funding is available. Setting up the reserve and making an annual revenue contribution would make provision for these costs which include the costs of upgrading the infrastructure.

4.3.11 **Borrowing-**The cost of borrowing to fund the resources shortfall will be accessed from the Public Works Loan Board (PWLB). The 2011/12 projected rate of interest rate for borrowing, over 25 years is 5.2%, this would mean a cost of £92,000 for every £1million borrowed (full year cost).

4.3.12 The Level of borrowing in 2010/11 has reduced from the estimated £800,000 to £550,000, this is as a result of slippage on the Major Enhancement works budget, however the borrowing is estimated to be £2,250,000 in 2011/12.

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 limit set in 2010/11 was £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. A £5,000 limit is also recommended for 2011/12.

4.4.3 There is an earmarked reserve for General Fund deminimus expenditure of £85,000 (balance as at 1 April 2011), available to fund non qualifying expenditure.

There is a 2011/12 budget of £25,000 contained within the final HRA rent setting and budget proposals (to this meeting), to fund HRA non qualifying expenditure.

4.5 CONTINGENCY ALLOWANCE FOR 2011/12

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 The contingency allowance was reduced in 2010/11 from £2million to £500,000 to reflect the resourcing pressures facing the capital programme. The contingency proposed for 2011/12 is £250,000 for schemes funded from capital receipts or borrowing. 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 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.

BACKGROUND DOCUMENTS

- Capital Strategy Update November 2010 (Executive)
- Capital Strategy Update January 2011 (Executive)

APPENDICES

- Appendix A – 5 Year Capital Strategy
- Appendix B – Capital Schemes funded by Receipts and borrowing
- Appendix C – Comments of Scrutiny Overview Committee