Part I – Release to Press

Meeting: **EXECUTIVE**

Council Agenda Item: **13**

Portfolio Area: Resources

Date: **7 FEBRUARY 2012**

2012/13 CAPITAL FORWARD PLAN & 5 YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

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1. PURPOSE

1.1 To consider the 2012-13 General Fund and Housing capital programmes.

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

1.3 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 2011/12 and the final 2012/13 General Fund capital programme (which include the amendments made by the Leader's Services Priority Group), as detailed in Appendix A.

2.2 That Council be recommended to approve the revised 2011/12 and the draft 2012/13 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 Appendix A.

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

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 of the Strategy has been on the shortfall in resources. This is a result of the approved programme exceeding the capital monies available. In each year this has been compounded by diminishing land receipts, resulting from both the recession and from complex legal processes involved in disposing of some sites. Right to Buy (RTB) sales (of which the Council keeps 25% to spend on capital), have fallen from 11 sales as at 31 December 2010 to five at 31 December 2011. The gross receipt to 31 December is £430,000, of which approximately £106,500 (after expenses) is not paid to the government ('pooled'). In addition there was a further £4,500 received (net of pooling) for mortgages and discounts repaid. The original budget for unpooled right to buys was £500,000. This was revised to £200,000, and is now further reduced to £141,000.

3.3 Members and officers have continued to act decisively to bring the Capital Strategy back into balance by deferring or deleting schemes within the programme based on a prioritisation of need. The General Fund Medium Term Financial Strategy (MTFS) has been updated to reflect the ongoing need to borrow to fund the capital programme, and the amount of borrowing approved by Members at February Council. Due to market conditions the Council was once again unable to sell its surplus assets to fund the capital programme, which has resulted in all lower priority schemes being removed from the programme.

3.4 The borrowing requirement for the General Fund was agreed at £2,000,000 for 2011/12 in addition to the £800,000 agreed in 2010/11. However the approved borrowing has not been taken out in either year, as we have been able to use higher than expected cash balances (investments). This is because investment returns are so poor at present – as interest earned on investments is less than 1% - and long term borrowing interest costs are around 4.3%. This means that the General Fund will pay no borrowing costs but will receive lower investment income. Regardless of how the need to borrow is financed the General Fund still has to set aside an amount to repay the debt.

3.5 The HRA capital programme is predominantly funded from the Major Repairs Allowance (£7,004,640) and supported borrowing for the Decent Homes programme (£5,929,310).

3.6 At the January Executive a net reduction of £973,080 was reported on the 2011/12 capital programme, of which £977,730 related to scheme slippage. There was also a 2012/13 General Fund capital programme deficit reported of £555,862, notwithstanding all Priority D schemes had been deferred until 2013/14. As a result of the 2012/13 deficit, Members approved at the January Executive that all Priority B schemes would be deferred until 2013/14.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2011/12 CAPITAL PROGRAMME

4.1.1 The 2011/12 revised **General Fund** capital programme is projected to be £5,539,190, this is no change from that reported at the January Executive.

4.1.2 The 2011/12 revised **HRA** capital programme is projected to be £13,182,210. This is no change from that reported at the January Executive.

4.2 2012/13 CAPITAL PROGRAMME

4.2.1 The 2012/13 **General Fund** capital programme includes no forward plan bids as officers have continued to recognise that with a considerable proportion of the programme deferred, any new schemes would jeopardise the existing programme. The Leader's Service Priority Group (LSPG) reviewed the draft Strategy approved at the January Executive on the 18 January 2012. A number of scheme budgets were deleted or deferred and as a result of the scrutiny of the 2012/13 programme by LSPG there is now a projected surplus of £391,105 in 2012/13. A summary of the amendments are detailed are summarised below in Table One, and the LSPG adjustments are detailed in Appendix B.

Table One – Amendments following the January Executive Breakdown of General Fund Schemes 2012/13 by priority:

	2012/13 Budget £
2012/13 Deficit reported to January Executive	555,862
Deferral of 2012/13 Priority B Schemes until 2013/14	(577,660)
Less LSPG adjustments identified in Appendix B	(350,000)
Impact of additional grant received in 2012/13	(19,307)*
2012/13 revised surplus for February Executive	**(391,105)**

** this adjustments relates to additional grant notification*

4.2.2 The 2012/13 capital programme includes slippage from the 2011/12 capital programme (£773,530) but a further £2,507,600 has been deferred from the 2012/13 programme into 2013/14 (Priority B to D schemes).

4.2.3 The 2012/13 projected surplus of £391,105 only represents 6.7% of the total General Fund programme and the risk of potential revenue and capital over spends increases as increasing amounts of capital works are deferred. The 2013/14 programme has a deficit of £1,844,765, partly due to the amount of deferrals that have been identified (Appendix A) and LSPG will continue to meet to review the 2013/04 capital programme onwards.

4.2.4 All schemes which are funded, (all or in part), by capital receipts/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). The 2012/13 programme now only contains Priority A schemes and schemes fully funded from other sources. The breakdown of the remaining £5,828,360 General Fund Schemes by priority is shown in Table Two below.

Table Two – Breakdown of General Fund Schemes 2012/13 by priority:

Scheme Priority	**Amount**
A	3,985,260
Funded by other sources (100%)	1,843,100
Total	**5,828,360**

4.2.5 The 2012/13 **HRA** capital programme includes major works in the delivery of the decent homes programme, as well as smaller items of expenditure for replacement equipment, and IT associated with managing the housing service. The total budget for identified schemes is £16,353,460 which includes the funding from HRA budgets approved at Council on the 25 January 2012.

4.2.6 The HRA capital programme includes an assumption for decent homes backlog funding of £4,750,000 in 2012/13, £4,348,000 in 2013/14 and £9,558,000 in 2014/15. Only the 2012/13 allocation is confirmed at this stage, the other two years have been advised provisionally by Communities & Local Government (CLG), and are subject to confirmation by CLG. Any significant changes to these could have an impact on the delivery of the existing programme.

4.3 CAPITAL PROGRAMME for 2013/14 and beyond

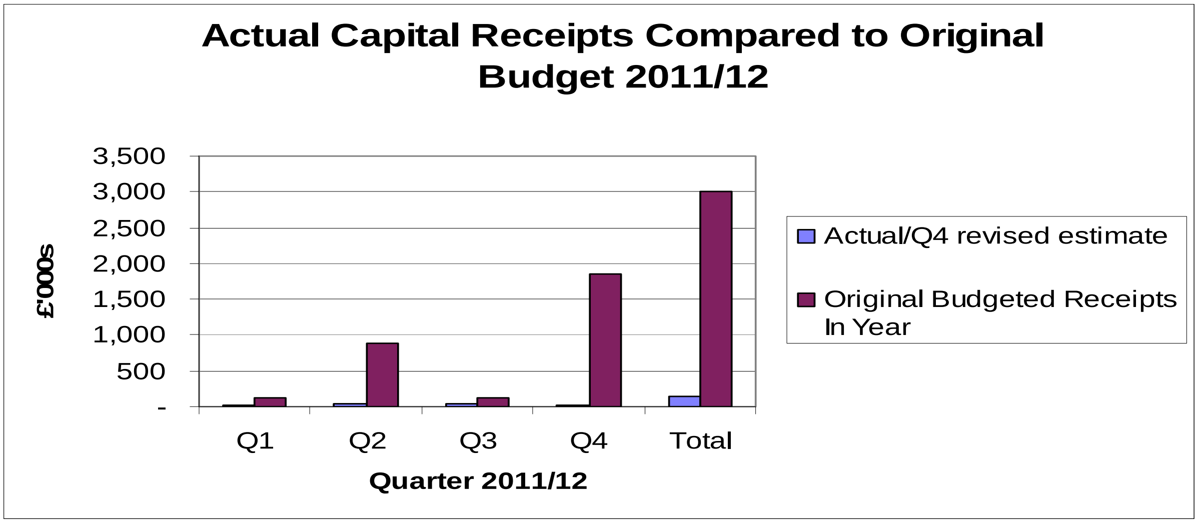
4.3.1 It should be noted that in the final Capital Strategy programme there is a funding deficit of £1,844,765 in 2013/14 and in future years the funding deficit increases. This is despite taking out projected borrowing of £2million in each future year of the draft strategy. The 2013/14 funding gap will be reviewed by LSPG who will continue to review and aim to reduce the 2013/14 funding deficit. However in order to have a sustainable, affordable General Fund Capital Strategy it is imperative that the Asset Management Plan is implemented to release resources to reduce the burden on the General Fund (borrowing requirement) and ensure that the capital programme delivers the right investment outcomes for the Council's assets.

4.4 CAPITAL RESOURCES AVAILABLE TO FUND THE CAPITAL STRATEGY

4.4.1 **Capital Receipts** - In the January report projected 2011/12 capital receipts were £141,000, this is substantially lower than the receipts originally budgeted £2,998,000, (including £500,000 planned Right to Buys (RTB's)).

4.4.2 In the November HRA Self Financing Executive Report Members approved a number of policy decisions, one of which was that all future RTB receipts (net of pooling) from the 1 April 2012 are made fully available to the HRA Business Plan. The capital resources projection for 2012/13 assumes that all housing receipts will be available to fund the Housing Capital Programme exclusively.

4.4.3 The Council's capital resources, which in the past have been predominately capital receipts, have declined over recent years. The graph below illustrates actual receipts achieved (£110,000 at the end of Quarter 3) and £141,000 expected for the year, compared to the original budgeted figure for the year of £2,998,000. This reflects the legal complexities around the planned General Fund disposals, and the ability of tenants to obtain mortgage approvals for right to buy. The current government consultation on reviewing discount rates could also be affecting purchases.



4.4.4 The updated Capital Strategy (Appendix A) shows that the 2012/13 capital programme has a funding surplus of £391,105. This follows the action taken by LSPG as detailed in 4.2.1.

4.4.5 The CCRG group will be meeting monthly to review the receipts received and release schemes. Members will be updated quarterly as part of the Capital Strategy report to Executive.

4.4.6 The level of resources available raises a number of issues and risks for next and future years, which need to be addressed:

- The 2013/14 capital programme has a significant resourcing shortfall. This will be reviewed by LSPG over the next few months..
- The current Capital Strategy resources only deliver high priority health and safety works/match funded schemes which have already commenced. With the current approach there is no scope for investment in new assets or making improvements to existing buildings.
- The implementation of the Asset Management Strategy is key in delivering resources to the Capital Strategy and reducing the size of the Council's asset and property portfolio. It is also imperative that limited resources do not damage the Council's ability to maintain its significant income streams as assets deteriorate from lack of investment.
- There are limited capital resources to fund any overspends/new requirements which could occur during the financial year.
- There is a risk that capital receipts will not be realised in 2012/13 onwards, resulting in the further need to borrow, with the associated pressure on the General Fund.
- Any additional schemes identified for inclusion in the 2012/13 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.

4.4.7 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 General Fund Medium Term Financial Strategy (MTFS) includes an additional borrowing allocation of £800,000 for 2012/13.
- Ensuring the link between the Asset Management Strategy and the Capital Strategy is understood by all stakeholders and decision makers.
- Continuing the work of LSPG in reviewing the capital programme and strategy.

4.4.8 **Borrowing -**The cost of borrowing to fund the resources shortfall will be accessed via the Public Works Loan Board (PWLB). A provision for interest is included in the General Fund budget for 2012/13 of £93,333. The Capital Strategy shows that borrowing has been used in preference to capital receipts. In reality if the anticipated receipts are realised in year and there are no unbudgeted additions to the 2012/13 capital programme, receipts would be used first, then borrowing due to the differential between borrowing and investment rates.

4.4.9 The **HRA capital programme** includes an assumption for decent homes backlog funding of £4,750,000 in 2012/13, £4,348,000 in 2013/14 and £9,558,000 in 2014/15. Only the 2012/13 allocation is confirmed at this stage, the other two years have been advised provisionally by Communities & Local Government (CLG), and are subject to confirmation by CLG. Any significant changes to these could have an impact on the delivery of the existing programme.

4.4.10 From 2012/13 the majority of funding comes from the HRA, either as depreciation (formally equivalent to the Major Repairs Allowance funded via subsidy) or revenue contributions to capital, (RCCO). In 2012/13 the HRA is contributing depreciation of £9,563,910 and a RCCO of £1,844,550.

4.4.11 As previously discussed in paragraph 4.4.2 all new RTB receipts will be used to fund the HRA capital programme and an estimate of £195,000 has been made for 2012/13.

4.5 DEMINIMUS LEVEL FOR CAPITAL EXPENDITURE 2012/13

4.5.1 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.

4.5.2 The limit set in 2011/12 was £5,000. This applies to a scheme value rather than an individual transaction. A £5,000 limit is also recommended for 2012/13.

4.5.3 The General Fund is making a contribution of £30,000 in 2012/13 to fund items that would have been capital if this limit did not exist. There is an earmarked reserve for General Fund de minimus expenditure of £139,670 (projected balance as at 1 April 2012), available to fund non qualifying expenditure.

4.5.4 The HRA also has a budget in 2012/13 of £25,000 contained within the final HRA rent setting and budget proposals, to fund HRA non qualifying expenditure.

4.6 CONTINGENCY ALLOWANCE FOR 2012/13

4.6.1 The contingency allowance was reduced in 2011/12 £500,000 to £250,000 to reflect the resourcing pressures facing the capital programme. The contingency proposed for 2012/13 remains at £250,000, for schemes funded from capital receipts or borrowing. This is due to the need to manage the deficit on the programme. 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.

5.5 Risk Implications

5.5.1 The significant risks associated with the capital strategy are largely inherent within this report and in paragraph 4.4.6.

5.5.2 A significant risk exists that works deferred due to lack of funding become urgent in year, requiring completion on grounds of health and safety. A reasonable assessment has been made in the prioritisation process to try to keep this risk to a minimum. However, it can not be forecast fully.

5.5.3 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.

BACKGROUND DOCUMENTS

Capital strategy Update November 2011 (Executive)
Capital Strategy Update January 2012

APPENDICES

Appendix A – 5 Year Capital Strategy
Appendix B – LSPG Amendments to Draft Strategy