

Meeting: EXECUTIVE

Council Agenda Item:

Portfolio Area: Resources

6B

Date: 12 FEBRUARY 2013

2013/14 FIVE YEAR CAPITAL STRATEGY UPDATE

KEY DECISION

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1. PURPOSE

- 1.1 To consider the 2013/14 General Fund and Housing capital programmes.
- 1.2 To provide Members with an update on the Council's Five Year Capital Strategy approved at the January Executive and updated here.
- 1.3 To provide Members with an update on the resources available to fund the Capital Strategy.

1. RECOMMENDATIONS

- 2.1 That Council be recommended to approve the revised 2012/13 and the final 2013/14 General Fund capital programme as detailed in Appendix A.
- 2.2 That Council be recommended to approve the draft 2013/14 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), Leader's Services Priority Group and Challenge Board, on the 5 year Capital Strategy be noted.

2. BACKGROUND

- 3.1 The Council has historically maintained a rolling 5 Year Capital Strategy that outlines the approved programme, forecast expenditure requirements for subsequent years and the anticipated resources.
- 3.2 Since 2008/09, the focus of the Strategy has been on the shortfall in resources. This is as a result of the approved programme exceeding the capital monies available, compounded by diminishing land receipts. This has been addressed in recent years through the prioritisation framework, ensuring that only schemes of the highest Council priority take place in order to minimise borrowing.

- 3.3 As a result a number of major works and other schemes have been deferred or deleted from the capital programme, with the consequence that they have or will become more urgent, or affect the operational capacity of properties, but in any case can not be deferred indefinitely. The current strategy is therefore recognised as not representing the investment needs of the Councils assets in the medium to long term. The current strategy has therefore been revised to include all the council's asset groups, identifying their potential investment need, enabling a longer view to be considered and factored into the financial strategy of the Council.
- 3.4 The projected borrowing requirement for the General Fund capital programme is £9,874,050 in 2012/13. It is only intended that the Council externally borrow for £7,135,000 of this, using investment balances to fund the remainder.
- 3.5 The reason for not externally borrowing currently is due to the large cash balances, as a result of delays in capital expenditure, and the timing of principal and interest payments by the HRA. The interest lost by not investing at this time is 0.81% compared with borrowing costs of around 4%. This means that the General Fund will pay no borrowing costs but will receive lower investment income. However, regardless of how the need to borrow is financed (internally or externally) the General Fund still has to set aside an amount to repay the debt, the minimum revenue provision (MRP).
- 3.6 The HRA 2012/13 capital programme is currently £18,281,650. This is funded from the Major Repairs Reserve/Depreciation (£9,629,656), backlog decent homes grant funding (£4,750,000), revenue contributions (£2,919,830), capital receipts (£838,500) and contributions (£143,664).

3. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 2012/13 CAPITAL PROGRAMME

- 4.1.1 The 2012/13 revised **General Fund** capital programme is projected to be £12,520,830; this is an increase of £4,000 from the approved working budget of £12,516,830.

The change is shown in the Table below:

Working Budget 2012/13	£12,516,830
KE100 Residential Parking expenditure brought forward from 2013/14	£4,000
February Revised Capital Strategy 2012/13	£12,520,830

- 4.1.2 The 2012/13 revised **HRA** capital programme is projected to be £18,281,650; there is no change from that reported at the January Executive. As at 31 January £6,017,560 or 33% of the HRA capital programme had been invoiced .

4.2 2013/14 CAPITAL PROGRAMME

- 4.2.1 The 2013/14 **General Fund** capital programme has been rebased using the data from the 15 year assessment of Council investment needs referred to above. The movement in the programme for 2013/14 as compared to the approved January

Strategy is a reduction in expenditure of £178,740, (moving from £5,022,400 to £4,843,660). The analysis of the movement to budgets is shown at Appendix B, it should be noted that the largest element of change comes from the analysis by building replacing a large element of the Major Capital Enhancement Works budget (KR041).

4.2.2 The 2013/14 capital programme also includes slippage of £2,456,340 from 2012/13, as reported to the November Executive.

4.2.3 There is a shortfall in funded borrowing over the life of the five year strategy, funded borrowing costs are those included in the General Fund Medium Term Financial Strategy projections as reported at the January Executive. The table below summarises the funding shortfall:

Approved and Unapproved Borrowing	2013/14	2014/15	2015/16	2016/17	2017/18
Approved Borrowing	2,819,080	3,676,595	3,429,950	3,048,310	
Unapproved borrowing			2,198,090	1,420,080	4,619,690
Total Borrowing	2,819,080	3,676,595	5,628,040	4,468,390	4,619,690

4.2.4 The Chief Finance Officer has stated that it is not viable to continue to borrow indefinitely to fund the General Fund capital programme and the Council are currently looking to the Asset Management Review underway to provide alternative strategies for the capital programme in the longer term.

4.2.5 The 2013/14 **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 £22,146,930.

4.2.6 The HRA capital programme was amended in January to include the confirmed allocations of decent homes backlog funding of £6,953,000 in both 2013/14 and 2014/15. This has been addressed by bringing forward delivery of the existing programme, to match the funding. Previously the same total level of funding was due but £9,557,590 was payable in 2014/15.

4.3 CAPITAL PROGRAMME FOR 2014/15 AND BEYOND

4.3.1 The capital programmes for 2014/15 to 2017/18 are shown at Appendix A. The cumulative funding position is shown at the bottom of page one of Appendix A. From 2015/16 there is a cumulative funding deficit of £2,198,090. This funding gap increases in each of the following two years, resulting in unfunded borrowing of £8,237,860 at the end of 2017/18.

4.3.2 The 15 year investment needs is summarised in Appendix C, this has been reviewed by SMB but still needs to be challenged by LSPG for the investment need beyond 2013/14.

4.3.3 The asset management work is expected to be completed during the summer of 2013, and the capital resource implications arising from the recommendations of this report will be factored into future strategies when known.

4.4 CAPITAL RESOURCES AVAILABLE TO FUND THE CAPITAL STRATEGY

4.4.1 **Capital Receipts** – The expected level of receipts due in 2013/14 for the General Fund programme is £47,500.

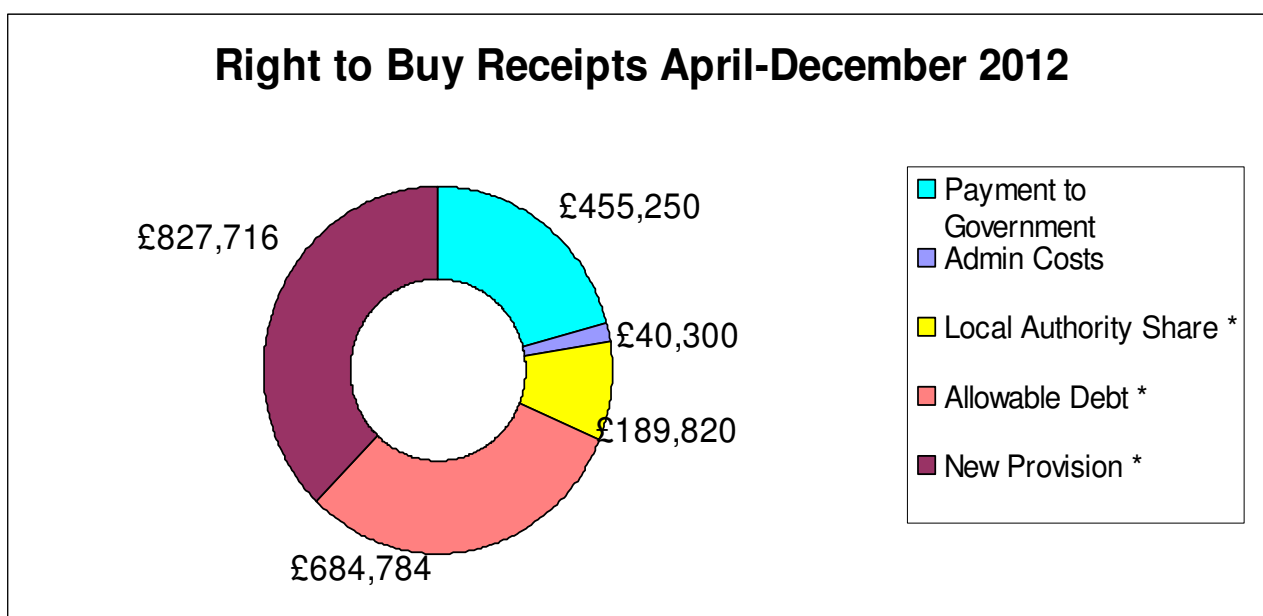
4.4.2 In the November 2011 HRA Self Financing Executive Report Members approved a number of policy decisions, one of which was that all right to buy (RTB) receipts (net of pooling) from the 1 April 2012 are made fully available to the HRA Business Plan.

4.4.3 The Council’s RTB capital receipts have increased significantly as a result of the relaxation of the cap on RTB discounts. The number of disposals at the date of writing was 37 (30/1/2013), which is some 27 sales higher than in previous years. In terms of how the receipts are being used is as follows:

- Local Authority Share- used in the 2012/13 capital programme
- New provision receipts of £588,000 are currently identified for use for the Council’s new build programme.
- Allowable debt- these receipts are currently being identified for Neighbourhood improvements

The table and graph below shows the split of RTB receipts as at 31 December 2012, and the usable portion:

	Quarter 1	Quarter 2	Quarter 3	Total
Payment to Government	£151,750	£151,750	£151,750	£455,250
Admin Costs	£7,800	£7,800	£24,700	£40,300
Local Authority Share *	£63,273	£63,273	£63,274	£189,820
Allowable Debt *	£52,689	£110,362	£521,733	£684,784
New Provision *	£22,929	£140,515	£664,272	£827,716
Total				£2,197,869
Usable Portion *				£1,702,319



- 4.4.4 The Council is currently handling 80 'live' applications for RTB. Based on the current proportion of enquiries, it is expected that that receipts next year will exceed those received in the current year.
- 4.4.5 The updated Capital Strategy (Appendix A) shows that the 2013/14 capital programme is in balance. However, from 2015/16 there is a deficit on the General Fund programme.
- 4.4.6 The level of resources available to the general fund has raised a number of issues and risks for next and future years, which need to be addressed:
- The capital programme from 2015/16 has a significant resourcing shortfall, rising to £8,237,860 in 2017/18.
 - The Capital Strategy has become dependent on significant levels of borrowing. This has a revenue implication, in terms of interest costs and the requirement to set aside money from revenue for the future repayment of debt (minimum revenue provision). This is not sustainable, as it impacts upon Council Tax levels.
 - 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 2013/14 onwards, resulting in the further need to borrow, with the associated pressure on the General Fund.
 - There is no allowance for future years' growth 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, LSPG and Challenge Board. The programme is reported quarterly to the Executive.
 - The General Fund Medium Term Financial Strategy (MTFS) includes a borrowing allocation to meet the estimated costs to the General Fund.
 - The link between the Asset Management Strategy and the Capital Strategy is being strengthened, and it is anticipated that the asset management review will identify surplus properties, which will both generate capital receipts that may be used on the capital programme, and generate savings from rationalising our property and asset portfolio.
- 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 and 2013/14. For 2012/13 the Council will only incur an MRP of £105,050 representing an amount set aside for the repayment of debt. The Council has borrowed internally, using its high cash balances. The interest cost has therefore been at a far lower rate (0.81%) of investment interest foregone. The total underlying need to borrow to fund the capital programme is

projected to be £11,677,078 for 31 March 2013 (of which £1,803,028 relates to 2011/12 expenditure incurred).

- 4.4.9 For 2013/14 there is a requirement to use borrowing of £2,819,080 rising to £3,676,595 in 2014/15 and £5,628,040 in 2015/16. This does not yet assume any changes as a result of the work underway on the asset management review.
- 4.4.10 The **HRA capital programme** includes an amendment for the final notified decent homes backlog funding. Communities & Local Government (CLG) have confirmed that the funding will be allocated equally £6,953,000 for each of the next two years. The provisional allocation figures allowed were for £4,348,000 and £9,558,000 respectively. This has enabled the Council to bring forward £2,605,000 of its planned decent homes works into 2013/14 from 2014/15.
- 4.4.11 Since 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 £2,919,830.
- 4.4.12 As discussed in paragraph 4.4.2 RTB receipts are used to fund the HRA capital programme and an estimate of £296,002 has been applied to the 2013/14 programme.

4.5 DEMINIMUS LEVEL FOR CAPITAL EXPENDITURE 2013/14

- 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 is set at £5,000, (no change from 2012/13). This limit applies to a scheme value rather than an individual transaction, allowing for a number of transactions on low value capital items to be grouped.
- 4.5.3 The General Fund is making a contribution of £45,000 in 2013/14 to fund items that would have been capital if this limit did not exist. There is an earmarked reserve for General Fund de minimis expenditure of £169,670 (projected balance as at 1 April 2013), available to fund non qualifying expenditure.
- 4.5.4 The HRA has a budget in 2013/14 of £25,000 contained within the final HRA rent setting and budget proposals, to fund HRA non qualifying expenditure.

4.6 CONTINGENCY ALLOWANCE FOR 2013/14

- 4.6.1 The contingency allowance was reduced in 2011/12 £250,000 to reflect the resourcing pressures facing the capital programme. The contingency proposed for 2013/14 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

5.5.1 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. The level of receipts for the general fund is however no longer significant in the capital programme. 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

BD1 - Capital strategy Update November 2012 (Executive)

BD2 - Capital Strategy Update January 2013 (Executive)

APPENDICES

Appendix A – Five Year Capital Strategy – **UPDATED FROM THAT CONSIDERED BY THE EXECUTIVE**

Appendix B – Changes to January Strategy

Appendix C – Strategy Years six - 15