THE EXECUTIVE

16 FEBRUARY 2010

REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND COMMERCIAL SERVICES

This report is submitted under Agenda Item 11. The Chair will be asked to decide if it can be considered at the meeting under the provisions of Section 100B(4)(b) of the Local Government Act 1972 as a matter of urgency in order to avoid any delay in the setting of the Capital Programme as part of the Council's overall budgetary framework for 2010/11.

Title: The Capital Programme 2010/11 to 2013/14	**For Decision**

Summary
This report deals with the formation of a proposed Capital Programme for consideration by the Executive and approval by the Assembly.

The attention of the Executive is drawn to two key changes in the programme proposed for 2010/11 onwards. Firstly, an exercise of re-prioritisation of capital schemes has been undertaken, with the resources identified as available for re-direction funding a programme of New Council House Building. This has been incorporated into the programme. Secondly, this report proposes that the balance of funding needed for the Skills Centre is included in the capital programme to ensure that this scheme progresses, although members are asked to note that external funding will continue to be sought for this scheme.

As a result of these changes, the resulting capital programme totals £394m for the financial years 2010/11 to 2013/14. Funding proposals for this programme have identified that £318m can be funded from external sources (£219m of this is in respect of Children's Services – Primary Schools Investment and Building Schools for the Future and £59m of this is in respect of the Major Repairs Allowance for Housing), and the balance of £76m is to be met from borrowing funded by the Council.

An allowance has been factored into the revenue budget model to enable the Council to borrow over the next four years to support capital expenditure. This allowance will enable borrowing of £60m to be funded corporately, with the balance being met from the relevant departmental budgets. It is the Chief Financial Officer's view that this level of borrowing is prudent, affordable and sustainable. These considerations form part of an assessment that must be carried out under the Prudential Code for Capital Investment. This corporate funding is designed to complement other sources of funding, such as external grants.

Throughout 2009/10, detailed discussions have taken place regarding the key priorities for capital investment by officers and Members. This provided a framework for to enable the production of the updated capital programme.

Alongside these discussions, detailed work has been undertaken to assess the impact of the economic downturn on the capital programme. The main effect has been on the land disposals programme. It is assumed in the production of this report that no additional capital receipts will become available to fund future capital investment.

The additional schemes proposed in this report have been subject to review by the Capital

Programme Monitoring Office (CPMO). However, these schemes will still need to achieve 5 green lights before expenditure can be incurred.

Wards Affected: All Wards

Recommendations

The Executive is asked to :

(i) Note the position of the 2009/10 Capital Programme as detailed in **Appendix A**;

(ii) Note the current capital accounting arrangements and prudential indicator capital guidelines as set out in section 3; and

(iii) Recommend the Assembly to approve:

  a. The overall Council Capital Programme for 2010/11 to 2013/14 as detailed in **Appendix B**, which includes New Build Council Housing funding of £10.011m (£0.307m in 2009/10) and Skills Centre funding of £13.409m (£0.491m in 2009/10);

  b. The Prudential Indicators for the Authority as set out in **Appendix C**.

Reason
To assist the Council to achieve all of its Community Priorities via a prudent and affordable Capital Programme.

Implications:

Financial:
The report proposes borrowing of £76m to fund a capital programme for the financial years 2010/11 to 2013/14. The proposed programme is considered to be both prudent and affordable to the Council and the revenue implications of this borrowing having been taken into account in setting the revenue budget and Medium Term Financial Strategy.

Legal:
The Executive is asked to recommend the capital programme for 2010/11 and the stated Prudential Indicators to the Assembly for adoption. The current regime of capital finance grants local authorities freedoms to make relevant decisions save that they must act in accordance with proper accounting practices. Proper practices which have been defined in Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as the accounting practices contained in “A Statement of Recommended Practice: Code of Practice on Local Authority Accounting in the United Kingdom” and the “Best value Accounting Code of Practice”. Local authorities are also required to have regard to the “Prudential Code for Capital Finance in Local Authorities” and “Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes”.

Members will note that the capital program for 2010-2011 is proposed to be funded from a combination of external funding such as grants and borrowing. In relation to borrowing section 3 Local Government Act 2003 requires local authorities to determine and review how much it can afford to borrow (the affordable borrowing limit). In the Treasury Management Strategy report also before the Executive on 16 February 2010 it is confirmed that the authorised borrowing limit is £200million for 2010/11. The proposed level of borrowing is within the authorised limit. In terms of governance arrangements members will note that the capital program is subject to ongoing review by the Capital Programme Management Office (CPMO).

Members will wish to consider the affordability of the programme and that the programme will assist the council to fulfil its objectives for residents.

Contractual:
No specific implications.

Risk Management:
The risk to the Council is that forecasted capital receipts will not be generated, final budgets for capital schemes may be higher that projected, during the course of delivering capital schemes there may overspends and external funding will not be forthcoming.
Specific procedures are in place through the Resource Monitoring Panels, Capital Programme Monitoring Office (CPMO), Corporate Management Team and the Executive to control these risks.

Customer Impact:
No specific implications.

Safeguarding Children:
No specific implications.

Crime and Disorder:
No specific implications.

Property/Assets:
The Capital Strategy is linked to the Property Asset Management Plan.

Options Appraisal:
A review of submissions was made in the light of the Council's capital strategy and the scheme proposals for the following four year capital programme are contained within this report.

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1. Introduction and Background

1.1. The Council is required to review its capital spending plans each year and set a Capital Programme. A key consideration when setting the programme is the projected level of available capital resources.

1.2. A variety of resources are available to local authorities to fund capital investment. The primary one is borrowing. The Medium Term Financial Strategy has set aside revenue funding to enable the Council to fund borrowing over the period from

2010/11 to 2013/14. The purpose of this funding is to complement other sources of funding, such as external grants, to enable the Council to deliver an ambitious capital programme that supports its objectives.

1.3. A second source of funding is capital receipts which arise from the sale of assets such as surplus land and the sale of council dwellings. The generation of capital receipts is currently limited due to the economic downturn, so the capital programme does not rely on generation of capital receipts for its funding.

1.4. A third source of funding is capital grants, or external funding, issued by Government departments and agencies, which are often allocated on a competitive bidding basis for specified purposes. Many of these require local authorities to make a financial commitment to the running costs of the schemes.

1.5 The basis of the formulation of the revised programme for 2010/11 to 2013/14 needs to take account of:

- the approved programme agreed in the 2009/10 budget;
- any new approvals, deletions or re-profiling of schemes throughout 2009/10;
- identification of any capital requirements for 2010/11 and beyond.

1.6. The purpose of this report is to enable the Executive to propose a capital programme for approval by Assembly on 24th February 2010.

2. Capital Programme Planning

2.1. An important part of planning is for the Council to have a Capital Strategy and Asset Management Plan in place. In addition, there are other service capital plans that are required by Government departments and they need to link clearly to the overall Capital Strategy and Asset Management Plan.

2.2 The authority's Capital Strategy is updated on an annual basis and is part of the Medium Term Financial Strategy which is subject to a separate report. The capital strategy is an over-arching policy document which relates to investment in services and describes how the deployment and redistribution of capital resources contributes to the achievement of corporate goals. The overarching objectives for the Capital Strategy are as follows:

- Successfully deliver a capital programme which is consistent with the Council's key priorities;

- Maximising external funding to support the delivery of the capital programme consistent with the Councils' key priorities, both from the private sector and through government grant funding; and

- Maximising the utilisation of the Council's assets by:
    - Ensuring that all investment properties are making sufficient returns;
    - Ensuring that non-profitable investment properties and assets surplus to requirements are disposed of as efficiently as possible; and
    - Monitoring the utilisation of assets on a regular basis.

In 2009/10 economic conditions were not favourable for asset disposals. Market conditions are starting to improve and land sales will be considered in 2010/11.

2.3 The Property and Asset Management Plan is integral to the Council's future capital investment planning process. It provides essential information in determining capital investment needs.

2.4 The formulation of the 2010/11 – 2013/14 capital programme has taken account of the Council's Property and Asset Management Plan and consequently capital schemes are assessed and approved on the basis of this strategy.

3. Capital Accounting Arrangements

Introduction

3.1 The enabling legislation for the current capital regime is set out in the Local Government Act 2003 which came into force on the 1st April 2004. Since this date, authorities have been empowered with greater freedoms to borrow than under the previous system, providing they can meet the revenue costs of the borrowing and the running costs of the resultant capital scheme. The capital system provides for an integrated approach to capital investment decision making with an authority having to take account the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications for external borrowing;
- Value for money through options appraisal and its strategic plans.

The aim is to bring together revenue and capital resources to meet service delivery objectives.

3.2 Prior to April 2004 the previous capital control system used in the main, the issue of annual Credit approvals by Central Government. These approvals allowed local authorities to either borrow or enter into other long-term credit arrangements up to an approved level. The use of this system effectively allowed the Government to control Council's borrowing and prevent local government from generating unsustainable levels of debt.

3.3 Instead of the use of credit approvals, the current system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the following two years. These indicators assist Council's in determining an appropriate level of borrowing and to provide benchmarks against which they can monitor their borrowing levels.

3.4 In simple terms the Council is able to borrow at whatever levels it feels are necessary so long as any borrowing is affordable, prudent and sustainable.

3.5 These prudential guidelines require the Council to set out various indicators on its capital plans, investments and projected Council Tax increases.

3.6 In addition local authorities are required to pool their housing capital receipts in the following way:

	Retained by Council	Paid into National Pool
Right to Buy Receipts	25%	75%
Other Housing Receipts	50%	50%

3.7 In the previous 5 years, this has had a significant impact on the Council's financial position. Prior to 2004, all capital receipts were kept and contributed to the Council's buoyant financial position and debt free status. Post-2004, the Council's capital balances have reduced as receipts have been pooled to central government.

3.8 From 2010/11 onwards, the impact of pooling for the Council will be limited – due to adverse economic conditions, land sales and right to buy receipts will be limited over the coming years. However, as the market starts to improve, this impact may increase again.

3.9 Capital expenditure plans proposed in this report, along with existing capital investment plans, require the Council to borrow £76m over the period 2010/11 – 2013/14.

Prudential Indicators

3.10 The prudential code for capital finance was introduced in April 2004 and is based upon a prudential system of borrowing. Under this framework, Councils have to set a series of indicators to assess whether capital investment is affordable, sustainable and prudent. In coming to this assessment, a series of "prudential indicators" need to be set. These compulsory prudential indicators are referred to in the Local Government Act 2003 and are embodied in the CIPFA Prudential Code.

3.11 The prudential system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the two following financial years. These indicators can be grouped into the following categories:

- Affordability;
- Prudence;
- Capital Expenditure;
- External Debt;
- Treasury Management.

Although there are five key prudential indicator headings, they should not be looked at in isolation as they all have inter-relationships with one another. The prudential indicators can be summarised as follows:

Affordability
These indicators compare the cost of all the authority's external borrowing with its overall expenditure. They also identify the increase in both Council Tax and HRA rents that will result from any additional borrowing. The indicators for affordability are:

- Estimated/actual ratio of financing costs to net revenue stream for HRA and general fund;
- Estimates of the incremental impact of capital investment decisions on both the Council Tax and housing rents.

Prudence
This indicator is designed to ensure that medium term borrowing is only used for capital purposes. The indicators for prudence are:

- Net borrowing and Capital Financing requirement

Capital Expenditure
These indicators look at estimated and actual capital expenditure and the Capital financing requirement. The indicators for capital expenditure are:

- Estimated/actual capital financing requirement (i.e. borrowing) for HRA and general fund;
- Estimated/actual capital expenditure for HRA and general fund.

External Debt
These indicators set out the limits for external borrowing and are set in the context of the authority's Treasury Management Policy and strategy.
The indicators for external debt are:

- Authorised limit for external debt i.e. the authorised limit for borrowing plus the authorised limit for other long term liabilities;
- Operational boundary for external debt i.e. total external debt gross of investments separately identifying borrowing form other long term liabilities;
- Actual external debt as at 31 March of previous year.

Treasury Management
These indicators address treasury management issues such as the amount of debt at fixed rates, the amount at variable rates and the period over which the money is borrowed. The indicators for Treasury Management are:

- Adoption of CIPFA Code of Practice for Treasury Management in the Public Services;
- Upper limit on fixed interest rate exposure;
- Upper limit on variable interest rate exposure;
- Upper and lower limits for the maturity structure of borrowing;
- Prudential limits for principal sums invested for longer than 364 days.

3.12 The code also places specific responsibilities on the Chief Finance Officer to ensure that matters required to be considered when setting and revising prudential limits are reported to the decision making body and to ensure that appropriate monitoring and reporting arrangements are put in place to assess performance against all the forward-looking indicators.

3.13 Detailed work has been undertaken on the relevant Prudential Indicators required for the Authority in relation to the Capital programme and these are set out at **Appendix C**. These indicators are reported to the Executive as part of the budget monitoring report on a quarterly basis to reflect any changes to the programme throughout the year. Those indicators relating to treasury management are reported within the Council's Annual Treasury Management Statement.

3.14 In summary, it is the Chief Financial Officer's view that the 2010/11 to 2013/14 capital programme is prudent, sustainable and affordable.

4. Capital Appraisal System

4.1 The Council has in place a Capital Programme Monitoring Office (CPMO) whose purpose is to provide a programme management function for the capital programme. These functions include clear processes around programme management; project appraisal and programme assembly.

4.2 The whole process is Green Book compliant and has been recognised as good practice by both the I&DeA and the Audit Commission. As a result all proposed capital projects are appraised by the CPMO and scored in terms of:

- Strategic fit & business justifications;
- Options analysis & achievability;
- Management & delivery structure;
- Risk Analysis; and
- Financial implications.

4.3 These appraisals involve a challenging process to departmental programme managers and concentrate on issues such as risks to the authority, revenue implications, deliverable benefits and measured outcomes to the community.

4.4 The appraisal process has become a cornerstone to the construction, approval and delivery of the Council's Capital plans. To ensure continuous improvement in this area the whole appraisal process is currently undergoing a review to meet all best practice guidelines.

5. Capital Programme 2009/10 – latest position

5.1. The Capital Programme is being managed by the Capital Programme Monitoring Office (CPMO) alongside the scheme managers in the relevant Departments. Support from the Finance Department is also provided to assist with the financial monitoring of the overall Programme.

5.2 The revised Capital Programme for 2009/10 currently totals £117m following the re-profiling as set out in the December 2009 budget monitoring report, although this includes schemes subject to appraisal. The full breakdown of the revised Capital Programme scheme by scheme for 2009/10 is shown in **Appendix A**.

5.3 As at the end of December 2009 £54m of this year's programme has been spent. This revised programme reflects the re-profiling of a number of schemes throughout the year which have previously been reported to the Executive. In addition to this 'physical' spend there are a great number of schemes which have commitments to spend before the year end. It is quite usual for the majority of spending on capital schemes to occur in the latter part of the year as a result of tender exercises and consultation.

6. Proposed Capital Budget 2010/11 to 2013/14

New capital bids

6.1 During 2009/10 all service departments were asked to consider their potential new capital investment requirements from 2010/11 onwards in accordance with the Council's capital investment priorities, which could be funded either from external sources, or schemes that which were self-financing.

6.2 The current capital programme is already funding a significant number of schemes to enable the Council to deliver its priorities on behalf of local residents. Due to the current economic conditions, an affordability assessment was undertaken on potential additions to the capital programme. As such, only two amendments are proposed for the programme.

6.3 Firstly, an exercise of re-prioritisation of capital schemes was undertaken, with the resources identified as available for re-direction funding a programme of New Council House Building. A report setting out this programme in detail was taken to the Executive on 19 January 2010, and this report formalises the programme into capital budgets.

6.4 Secondly, this report confirms the Council's commitment to fund the Skill Centre. The total project costs are £13.9m. Of this, a grant of £5m has been secured from the Department for Children, Schools and Families. Other sources of funding, including Section 106 balances, have been identified which will fund a further £3m of this development. This leaves a residual balance of £5.9m. While the Council has set aside funding to cover this balance, officers will continue to seek external funding and contributions to close the gap on this development.

6.5 As a result of the inclusion of these additional schemes, the revised capital programme, and how it will be funded will be as follows:

	2010/11	2011/12	2012/13	2013/14	Total
	£'000	£'000	£'000	£'000	£'000
Total Budget	**160,032**	**103,182**	**117,528**	**13,500**	**394,242**

Funding	External	Department Borrowing	Corporate Borrowing	Total
	£'000	£'000	£'000	£'000
	318,179	**16,241**	**59,822**	**394,242**

6.6 Attached at **Appendix B** is a full list of both the existing capital programme and these new capital schemes, including details of their sources of funding.

7 Revenue Implications of the Capital Programme

7.1 The cost of funding a Capital Programme from 2010/11 to 20113/14 for this authority is twofold. Firstly, the revenue budget will have to bear the revenue costs of borrowing. Currently for each £1m borrowed, this will cost the Council around £80,000 per annum in financing costs. Secondly, the revenue budget must bear the ongoing revenue costs of running and maintaining the assets that are created. All of these types of revenue implications have been factored into the revenue budget and Medium Term Financial Strategy.

8 Consultees

8.1 The following were consulted in the preparation of this report:

All Cabinet Members
Corporate Management Team
Heads of Service and Capital Project Managers
Finance Group Managers
Winston Brown – Legal Partner

9 Background Papers

- RTB Projections - Working papers
- Land Disposal Projections – Working papers
- Approved Capital programme
- CIPFA - The Prudential Code for Capital Finance in Local Authorities
- CIPFA – Treasury Management in the Public Services
- The Council's Asset Management Plan
- Local Government Act 2003

10 List of Appendices

Appendix A – Capital Programme 2009/10
Appendix B - Capital Programme 2010/11 – 2013/14
Appendix C – Prudential Indicators