DERBY CITY COUNCIL

COUNCIL CABINET
21 DECEMBER 2004

ITEM 15

Report of the Director of Finance

Capital Strategy 2005/6 to 2007/8

RECOMMENDATION

1.1 To recommend to Council an updated set of principles to guide the allocation of funding to support the capital programme from 2005/6, as set out in Appendix 2.

1.2 To note the evaluation criteria to be used by officers when prioritising schemes for recommendation for inclusion in the corporate capital programme for 2005/6 and 2006/7, prior to a decision by Cabinet, as set out in Appendix 3.

1.3 To confirm the process and timetable for taking decisions on the detailed content of the capital programme for 2005/6 to 2007/8.

SUPPORTING INFORMATION

Introduction

2.1 The Council's existing capital programme covers the period 2004/5 to 2006/7 and was last updated at November 2004 Cabinet. The programme for 2005/6 to 2007/8 is now under development and will be consulted on in the new year as part of the budget process. Cabinet also approved a limited updating of the capital programme on 9 November, incorporating the impact of various decisions taken during 2004.

2.2 The programme during the course of its development is split into 'funded service' and 'corporate' elements. The corporate element is the part of the programme that is made up of schemes that have competed for the allocation of corporate capital resources. The funded service element is the part of the programme that relies on resources that the Council has decided should be ring-fenced to that service.

Principles to Guide the Development of the Capital Programme

2.3 Cabinet adopted, on 5 August 2003, a set of principles to underpin the development of the capital strategy for 2004/5 to 2006/7. These set out how mainly how resources would be designated as available for general or specific corporate allocation. An updated set of core principles is now set out in Appendix 2 to apply to 2005/6 to 2007/8. These are proposed for adoption.

2.4 The changes are mostly minor ones in order to reflect and confirm the approach eventually adopted towards the current programme and keep the text up to date.

The approach of no top general top slicing of Government allocations of service capital resources continues accordingly. The treatment of right to buy receipts that is proposed maintains the current contribution of right to buy receipts to the housing service programme, in real terms, the balance being available for corporate allocation.

2.5 The only significant change concerns the treatment of Section 106 contributions – that is, receipts of land, buildings or cash negotiated from developers as part of the planning control process. These agreements represent a significant source of additional funding for the capital programme, but must be used in a way consistent with the conditions placed on these contributions. The scale of earmarking is determined within the s106 negotiations. The principles have therefore been extended to recognise the need to clarify the policy that guides the negotiation of s106 agreements and the degree of delegation involved. It is intended that this should be done by the conclusion of the 2005/6 budget process in March 2005.

2.6 Cabinet approval for bids for external resources of £100k or more is required by the Council's constitution. The 'funded service' programmes are heavily dependent on such external resources. Service capital programmes therefore need to identify bidding opportunities likely to become available, and the uses to which such funding is planned to be put if secured, when initial approval is sought for the 2005/6 budget. Specific Cabinet approval will also be needed for bids themselves, either individually or as part of a wider approval for service policy framework reports.

Development of Funded Service Programmes

2.7 Under these principles, funded service programmes will be funded from the following resources…

- Supported Capital Expenditure (Revenue) (SCE-R) allocations for borrowing from Government, for Housing, Education, Social Services, Highways, Transport and Flood Defence.
- Supported Capital Expenditure (Capital) (SCE-C) grants from Government specific to service programmes.
- Other external resources and grants in so far as these are earmarked for use by that service, potentially proceeds of s106 receipts and lottery funding for example.
- Service capital receipts available, other than those pooled for corporate reallocation.
- Contributions to service capital from within service revenue budgets.

2.8 Government allocations of SCE for 2005/6 confirmed up to early December are shown in Table 1:

Table 1: 2005/6 Government Capital Allocations – Early December 2004

	SCE-C	SCE-R	SCE-R ALMO	Total
	£000	£000	£000	£000
Education	6714	1956		8670
Social Services – Adults		115		115
Social Services – Children		tba		tba
Housing	345	3386	18915	22646
Transport				
- Maintenance and Joint Plan		4424		4424
- LTP – Inner Ring Road MS		3107		3107
- LTP – Connecting Derby		tba		tba
Flood Defence	529	729		1325
Total	**7655**	**13717**	**18915**	**40287**

2.9 Additional allocations for Connecting Derby (£1.78m) and Childrens' Social Services (£40k) are also anticipated.

2.10 Detailed investment proposals are now being worked up by each service, for consultation in the budget process according to the process set out below.

Development of the Corporate Capital Programme

2.11 Under the principles for development of the capital programme, all services are able to bid for additional corporate resources, save for education and transport on account of the size of their funded service resources. Resources for housing are also considerable, but bids to use the corporate programme on housing schemes may be considered as housing receipts are in part treated as corporate capital resources.

2.12 Corporate capital resources currently estimated to be available for the 2005/6 to 2007/8 period, consistent with revenue budget planning, are shown in Table 2:

Table 2: Available Funding for Corporate Programme – Dec 2004

	2005/6 £000	2006/7 £000	2007/8 £000
Unsupported borrowing			
- Available from slippage 2004/5	700	-	-
- New in year excluding spend to save	2,000	2,000	2,000
Capital receipts			
- Available from slippage 2004/5	198	-	-
- Other unused receipts b/f from 2004/5	2,143	-	-
- New receipts in year – housing	2,212	1,500	1,450
- New receipts in year – other land	657	N/a	N/a
Uncommitted capital reserves available	-	-	1,350
Planned revenue contributions	-	-	-
Total	**7,253**	**3,500**	**4,800**

2.13 The Council's revenue budget is being planned on the basis of £2m of unsupported borrowing per annum, with each year's borrowing adding a full year cost of £180k to the revenue budget. Capital receipts available to support the programme may increase from 2005/6, and the figures projected are a minimum allocation.

Uncommitted capital reserves are shown as becoming available from 2007/8, once temporary capital funding commitments for the Grouped Schools PFI have been satisfied.

2.14 Existing planned allocation of funding is summarised in Table 3. This is as approved in the forward capital programme in February 2004, updated for later changes already reported in 2004.

Table 3: Corporate Commitments and Indicative Allocations – Dec 2004

	2005/6 £000	2006/7 £000	2007/8 £000
Funding Potentially Available (Table 2)	7,253	3,500	4,800
Commitments			
- Expected Slippage from 2004/5	898	-	-
- Flood Defence	235	-	-
Provisional Allocations (Feb 2004)			
- Flagships: Accommodation Strategy	4,000	2,000	Tbc
- Flagships: QUAD	-	-	Tbc
- Contribution to e-Derby	250	250	Tbc
- Planned Maintenance Programme	750	750	Tbc
Potential Balance Available for Allocation to Priority Schemes	**1,120**	**500**	**4,800**

2.15 These provisional allocations will now need to be reviewed as the capital budget is developed, and allocations for 2007/8 considered. The scale of commitment will need to be considered in the context of the resources above. Specific points that will need to be considered are:

- The latest plans for delivering the Accommodation Strategy

- Any developments affecting the programme of flagship schemes last considered in February 2004. This includes the conditional Cabinet decision in November 2004 to support QUAD using capital resources, which it is assumed will impact on 2007/8 spending.

- Further capital contributions for e-Derby are not now considered necessary, on the basis that this investment should be funded on a ‘spend to save’ basis through generating equivalent revenue savings. This will release a further £250k for the balance to allocate in 2005/6 and 2006/7. Funding options for certain key replacement ICT projects will have to be considered separately from e-Derby, notably Revenues and Benefits systems and the main Financial Management system.

2.16 The remaining balance available for allocation to priority schemes in 2005/6 and 2006/7 was expected to be £1.875m and £2.0m in these years, greater than the potential balance set out in Appendix 3. This reflects lower levels of capital receipts, but is before any reassessment of capital receipts from the minimum level used here.

2.17 Further indicative priority allocations were made in February 2004 for 2005/6 and 2006/7, to be funded within this balance. These were, in each year, £750k for further work on Social Services residential establishments, £400k to work on the Chapel St and Assembly Rooms car parks and £250k to playground improvements. These are not firm allocations and the approved programme states that priorities will be reassessed as part of this budget process.

2.18 The criteria proposed for assessing further schemes for approval from 2005/6 are set out in Appendix 3. These have been considered by the corporate Asset Management Group. The scoring system has been amended to give more prominence to the deliverability of schemes, for allocations sought for 2005/6. This is to ensure that schemes are properly worked up before they are considered, and to reduce the potential for slippage.

2.19 The scoring system is to assist the officer panel evaluating schemes, working through the corporate Asset Management Group, before recommendations on priorities are suggested for 22 February Cabinet to recommend to Council. It is currently intended that…

- to assist forward planning, firm forward approval should be given to some 2006/7 schemes as well as those for 2005/6 and

- some of the 2005/6 programme should be retained for allocation later in 2004, as a contingency, as it may be necessary to reassess priorities later in the year.

Spend to Save Capital Schemes

2.20 Any existing 'spend to save' capital schemes that impact on capital budgets from 2005/6 will be included in the capital budget for approval. The budget process will also confirm that the final revenue budget has made provision for savings arising from these projects, in order to justify their status.

2.21 Further spend to save projects may be approved as necessary during the course of 2005/6, with recommendations to Cabinet following scrutiny by an officer panel. Given their self-financing nature, spend to save schemes can be approved at any point in the year, as the capital investment will not affect decisions on the council tax in March.

Process and Timetable

2.22 The proposed process for reaching decisions on the capital programme is set out below.

- Consolidated capital budget proposals will be taken for consultation to Scrutiny Management Commission on 31 January 2005.

- Cabinet will on 22 February make final recommendations to 2 March Council seeking conditional approval of the capital budget.

- Funded service programmes for housing, education, transport and social services will be reported in detail to the relevant Commission prior to final approval by Cabinet. Cabinet on 15 March will give final approval to the detail of these funded service programmes, if it has not proved possible to consult with the relevant Commission on the detail of these in time to allow a decision at 22 February Cabinet.

- For each scheme within the funded corporate capital programme, a full project proposal will be presented for approval to Cabinet no later than 15 March, before final approval is given to the scheme. Should any reprioritisation be necessary at this stage, outside of the approved budget framework, Council would need to approve additional spending on any new scheme.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Principles to Guide Development of the Capital Programme Appendix 3 – Scoring Criteria for Corporate Capital Schemes 2005/6 and 2006/7

IMPLICATIONS

Financial

1. As set out in this report.

Legal

2. Capital expenditure that cannot be met from borrowing, capital receipts, contributions or grants has to be charged to the revenue budget. The rules governing decisions on the capital programme are set out in the Local Government Act 2003 and in regulations and statutory guidance issued under that Act, including the Prudential Code for Capital Finance in Local Authorities issued by CIPFA.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The process in this report is intended to deliver a capital programme that is consistent with corporate objectives and priorities.

Appendix 2

Principles to Guide Development of the Capital Programme

1. This paper sets out the principles to guide in 2004 and 2005 the development of the capital programme for the period 2005/6 to 2007/8. The principles are updated from those adopted by Cabinet on 9 August 2003 to apply to the 2004/5 to 2006/7 programme.

2. The corporate capital programme should be given priority for use of any additional borrowing capacity under the Prudential Code. This prioritises application of the additional borrowing capacity under the Code to support the General Fund for services other than schools and transport infrastructure, and other than any other services where significant earmarked resources may already be available to address priorities.

3. There will be no top slicing of the SCE-R or SCE-C allocations from the Education, Transport, Housing and Social Services service capital programmes. Education SCE funding is ring-fenced. Although the other SCE allocations are, in theory, part of the ‘single capital pot’, in practice the encouragement that the single pot gives to pooling of resources is not borne out by the practice of Government departments. In return for retaining these resources in full, the Education and Transport services programmes will not seek additional allocations of corporate capital resources. Social Services and Housing may still bid for allocation of corporate capital resources. Housing may bid as some housing capital receipts above baseline planning levels are to be made available to the corporate programme, as set out below. Social services may bid as their SCE allocations are relatively small.

4. All capital receipts will generally be considered as available for corporate use, save for the following exceptions…
   - 25% of education receipts will be earmarked for the school concerned and 50% for the wider education service
   - Receipts from discretionary disposals of housing land will be earmarked for investment in affordable housing, to comply with ODPM conditions so that 100% of such receipts are retained for use by the Council
   - Right to buy receipts will be allocated directly to the housing service up to a level that maintains in real terms the baseline of £900k set for 2004/5.

   Final decisions on the allocation of capital receipts will be subject to decision by Cabinet within the budget process for each year. If services are to subsequently retain any additional receipts, planning of their use in future service plans will be a general precondition for this, with any other allocations back to services being exceptional.

5. As the capital resources directly available to Social Services are relatively small, the extent of cooperation to identify and meet any identified needs should influence the decision on the scale of resources available to support the housing capital programme. There may be potential for the housing capital programme to fund additional works to further address the needs of Social Services clients, in terms of investment in housing to support clients in the community.

6. For 2004/5, all capital receipts other than those already earmarked to support the approved 2004/5 capital programme will be held corporately and will not be

committed to service use. Exceptions apply in the case of education receipts and discretionary disposals of housing land, on the basis set out above.

7. The programme for identifying and disposing of surplus property, set out in the Asset Management Plan, will be developed robustly by the Director of Corporate Services, to make available additional capital receipts, subject to considerations of value for money in the context of the Prudential Code.

8. Specific corporate capital receipts may if necessary be earmarked to deliver specific elements in the corporate capital programme.

9. The implications for service revenue budgets will be addressed within cash limits when income-generating assets are sold.

10. To influence the content of service programmes funded by external bids, early input by members is needed, at the point at which bids are submitted. Cabinet approval for funding bids of £100k or more is required by the Council's Constitution. Service capital budget proposals should identify bidding opportunities likely to become available, and the uses to which such funding may be put. In addition to meeting corporate priorities, bids need to be framed so as to minimise pressure on corporate capital and revenue funding. Where Cabinet is asked to approve bids that were not anticipated when service capital budgets were approved, this should be identified as the availability of such funding might have influenced corporate allocations.

11. Section 106 contributions are receipts of land, buildings or cash negotiated from developers as part of the planning control process. These agreements represent a significant source of additional funding for the capital programme, but must be used in a way consistent with the conditions placed on these contributions. The scale of earmarking of s106 resources is determined by the s106 negotiation. Policies that determine the conduct and outcome of such negotiations therefore need to be clear, together with the degree of delegated authority. Cabinet will be asked to clarify and confirm such policies, by the conclusion of the 2005/6 budget process in March 2005.

Appendix 3

Scoring Criteria for Corporate Capital Schemes 2005/6 and 2006/7

All schemes must form part of the Asset Management Plan or other relevant corporate or service plans.
Schemes will not be considered if the revenue implications are considered to be prohibitive

Criteria	Maximum Score
Consequences of Exclusion Risk to services or budgets if scheme not undertaken or a requirement to meet legislation (e.g. Health and Safety) *Consideration should be given to risk levels and implications of prosecution – if risk levels are low and would result in a limited level of fine a lower mark should be awarded*	30
Priority Within the Service The schemes given the highest priority with each department's strategy will attract the highest scores for that department, subject to this prioritisation being • consistent with the ranking of any related plans such as the AMP • shared by other departments where objectives are cross cutting	10
Corporate Priority Schemes given the highest score will be directly related to specific objectives within the current Corporate Plan or otherwise priority corporate objectives expected to be reflected in revisions to the Plan.	10
Option Appraisal Evidence that option appraisal has taken place with alternative options evaluated before recommending capital investment, including alternative sources of funding.	10
Scale of Available Service Resources Higher scores will be given to services which do not have the ability to fund priority schemes from other sources without a corporate contribution. This includes earmarked capital resources and any resources likely to be available to the department from service underspending.	10
Revenue Implications Additional net revenue costs of the scheme (if any) are affordable and consistent with service revenue budget plans submitted for the 2005/6 to 2007/8 period.	10
Wider Resource Benefits The level of leverage of external resources attributable to the scheme or the extent to which service or corporate revenue savings will be obtained, relative to the corporate contribution.	10
Deliverability Evidence that the level of proposed expenditure is achievable in the year for which resources are sought, taking account of both the specific scheme and the track record of the service. *Evidence for schemes to include reference to bidding processes for external funding, design, tender and site periods and to be confirmed by Property Services if appropriate. Proper consideration of disruption to the service to be demonstrated if applicable – such as closure periods and decanting arrangements.*	10
TOTAL	100