DERBY CITY COUNCIL

COUNCIL CABINET
20 DECEMBER 2005

ITEM 8

Cabinet Member for Corporate Policy

Capital Strategy 2006/7 to 2008/9

SUMMARY

1.1 This is the annual report that confirms the process that will guide capital investment decision making as part of the budget process for 2006/7 onwards. Existing principles guiding this process require updating, including the need to consider supported housing needs when considering the best use of resources for housing, the future impact of the Government's recent proposals on Planning Gain Supplement, and the new division between children's and adult services (2.3 to 2.7 and Appendix 2).

1.2 The timetable for decision making in 2006 shows how the different service programmes and the corporate programme will be subject to review and scrutiny (Appendix 3).

1.3 The report confirms the expected funding levels over the period from 2006/7 and the proposed allocation of resources to the corporate capital programme, consistent with the updated principles for guidance (Tables 1 and 2 and 4.2 to 4.5). Some updating of indicative corporate allocations from 2006/7 is shown, consistent with approvals made to date and subject to the decisions to be taken in the new year following further review (4.6). Further pressures likely to emerge on the corporate programme are also set out (4.7). The scale of the Council's approved use of self-financing prudential borrowing is set out and demonstrates the effective use of new powers under the Local Government Act 2003 (5.1 to 5.5).

1.4 Subject to any issues to be raised, I support the following recommendations.

RECOMMENDATIONS

2.1 To recommend to Council an updated and amended set of principles to guide the allocation of funding to support the capital programme from 2006/7 onwards, as set out in Appendix 2.

2.2 To agree the planned allocation of resources to the corporate capital programme, as set out in Sections 4.2 to 4.4 and Table 2.

2.3 To note the ongoing re-evaluation of the corporate capital programme, and revisions made to the indicative programme, prior to later decisions by Cabinet and Council.

2.4 To confirm the approach to self-financing prudential borrowing set out in Section 5.

2.5 To confirm the process and timetable for taking decisions on the detailed content of the capital programme for 2006/7 to 2008/9, set out in Appendix 3.

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Report of the Director of Finance

Capital Strategy 2006/7 to 2008/9

SUPPORTING INFORMATION

1. Introduction

1.1 The Council's existing capital programme covers the period 2005/6 to 2007/8. The programme for 2006/7 to 2008/9 is now under development and will be consulted on in the new year as part of the budget process. The programme has been updated as specific decisions have been taken during 2005, and a separate report on this agenda summarises the current position of the programme in 2005/6.

1.2 This report sets out the framework against which the programme is now being developed further for the period 2006/7 to 2008/9, leading up to formal approval by Council in March 2006.

2. Principles

2.1 The principles that currently underpin the development of the capital strategy were first adopted in August 2003, and amended in December 2004. They are based on the approach of dividing the finite resources available to the programme into 'funded service' and 'corporate' elements during its development. 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 upon resources that the Council has decided should be ring fenced to that service. The principles are largely concerned with the process of how this is done.

2.2 An amended set of principles is put forward for adoption in Appendix 2. The principles continue to affirm the general approach of having a separately identifiable corporate element to the programme. Changes to the principles are set out below.

2.3 The principles have been changed to address the boundary between housing and supported housing, in terms of the definition of ring fenced funding for housing purposes. The Council is currently consulting on a Supported Accommodation Strategy and will need to address the likely associated funding requirement including funding of very sheltered Extracare schemes, which are often housing association schemes. It is proposed to bring any such future supported housing capital needs within the ring fence currently applying to the funded housing programme, accompanied by a greater degree of ring fencing of housing capital receipts. This will enable supported housing needs to be considered and prioritised against other cash elements of the housing capital programme, rather than against the much more limited funds available to the corporate capital programme. The housing capital programme would only support the accommodation elements of a supported housing programme, rather than any care elements.

2.4 The principles also reflect the Government's recent consultation proposals to introduce a Planning Gain Supplement from 2008, and to restrict the scope for Section 106 developer contributions from that date. The existing capital strategy was amended in December 2004 to recognise the need to clarify the policy that guides the negotiation of Section 106 agreements and the degree of delegation involved. Cabinet on 26 April 2005 and Planning Control Committee on 27 October 2005 subsequently considered reports on monitoring processes and the degree of member involvement. There remains a need to clarify the basis of how Section 106 funds are prioritised, particularly in the light of issues raised in the Government's consultation paper. It is now expected to report back to Cabinet on this in February, to coincide with the deadline for responses to consultation.

2.5 Changes have also been made to reflect the new division of responsibilities between Children's and Adults Services, replacing references to Education and Social Services.

2.6 The advisory role of the officer Asset Management Group in respect of corporate programme allocations is now well established and has been included in the principles.

2.7 Finally, Cabinet approval for bids for external resources is now required where such bids either exceed £250k or would otherwise create a new net budget commitment if successful. The strategy now reflects the recent change to the Council's constitution, to this effect.

3. Development of the Funded Service Programme

3.1 Consistent with these principles, funded service programmes will be funded from the following resources…

- All supported Capital Expenditure (Revenue) (SCE-R) allocations for borrowing from Government, including housing, schools, children's and adults services, highways, transport and flood defence
- Supported Capital Expenditure (Capital) (SCE-G) grants from Government specific to service programmes
- Earmarked proceeds of s106 receipts, subject to further procedural review
- Other external resources and grants in so far as these are earmarked for use by that service, for example specific European and lottery funds
- Service capital receipts available, other than those pooled for corporate reallocation
- Contributions to service capital from within service revenue budgets, either as direct contributions or to finance prudential borrowing.
- Spend-to-save capital schemes funded through self-financing prudential borrowing

3.2 Government allocations for Supported Capital Expenditure for 2006/7 and 2007/8 have as yet only been announced in part. Table 1 shows the situation as known up to 15 December.

Table 1 : Government Capital Allocations 2006/07 to 2008/09 – to 15 December 2005

	2006/7 £'000	2007/8 £'000	2008/9 £'000	Total £'000
Schools	12,802	15,032	2,862	30,696
Other Childrens Services	139	139		278
Adult Social Services	235	237		472
Housing	Tbc	Tbc	Tbc	Tbc
Transport	10,333	3,041	3,242	16,616
Flood Defence	Tbc	Tbc	Tbc	
Total	23,509	18,449	6,104	48,062
of which				
SCE (R)	15,537	10,198	6,104	31,839
Capital Grants	7,972	8,251	0	16,223

3.3 The majority of the schools allocations are based on earlier indicative figures for 2006/7 and 2007/8 pending notification of the final allocations. Allocations for housing and flood defence have also to be confirmed.

3.4 Detailed investment proposals are now being worked up by each service. Proposals put forward for the housing, schools and transport funded service capital programmes will be considered by the relevant scrutiny commissions in the new year, prior to a decision by Cabinet. Appendix 3 shows the timetable.

3.5 There remains some uncertainty over the marginal effect of the revenue funding that is backing the SCE-R allocations, through revenue support grant. The revenue cost of SCE-R allocations in theory feeds into revenue support grant, but the system for this may have been compromised by the fact that grant allocations above a 2% floor are being scaled back by 87%, as announced in the 5 December revenue support settlement and reported separately on this agenda. The implications of this are currently being investigated and the Local Government Association is seeking clarification from ODPM.

4. Development of the Corporate Capital Programme

4.1 Appendix 2 retains the principle that all services are able to bid for additional corporate capital resources, save for schools and transport on account of the size of their funded service resources. The funded service resources for housing are also considerable, but future use of the corporate programme to supplement the housing schemes (including supported housing) may still be considered as housing receipts are still in part funding the corporate programme.

4.2 Corporate capital resources currently estimated to be available for the 2006/7 to 2008/9 period, consistent with existing budget planning, are shown in Table 2. This excludes funding for approved or future self-financing prudential borrowing schemes and £8m of capital receipts already set aside by the end of 2005/6 in a reserve to enable future delivery of the Council's Accommodation Strategy.

Table 2: Available Funding for Corporate Programme – December 2005

	2006/7 £000	2007/8 £000	2008/9 £000
Unsupported borrowing			
- To fund slippage from 2005/6	468	67	
- New in year excluding self-financing	2,000	2,000	2,000
Capital receipts			
- To fund slippage from 2005/6	0	0	0
- Other unused brought forward receipts	1,423	383	723
- New receipts – net housing receipts	859	643	633
- New receipts – other	760	200	0
- Uncommitted capital reserves	831	200	0
- Public priority planned contributions	50	50	0
Total Funding	6,391	3,543	3,356

4.3 The Council is continuing to plan its revenue budget on the basis of a core commitment of £2m unsupported borrowing per annum, with each year’s borrowing currently adding a full year cost of around £180k to the revenue budget. Capital receipts have only been included in Table 2 where they can be relied upon, so the figures projected are a minimum allocation.

4.4 The funds available from housing receipts are shown after the deduction of £975k, £1,205k and £1,230k to support the funded housing capital programme in 2006/7,2007/8 and 2008/9 respectively. For 2007/8 and 2008/9 this is £200k higher than the updated base position, to provide some extra funding to back the transfer of supported accommodation from the corporate programme to the funded housing programme. The net receipts available to the corporate programme from this source are significantly lower than the £1.5m originally planned for 2006/7 on account of a reduction in sale volumes and receipts are based on current projected sale volumes. These are relatively prudent estimates.

4.5 An updated projection of existing planned corporate capital spending is summarised in Table 3. This is as set out in the forward capital programme approved in February 2005, updated for later changes already reported in 2005. The figures also include indicative allocations within the forward capital programme, which now require review. Some adjustments have been made and are explained in Section 4.6 below.

Table 3: Corporate Capital Commitments and Indicative Allocations from 2006/7

	2006/7 £000	2007/8 £000	2008/9 £000
Funding Potentially Available (Table 2)	6,391	3,543	3,356
Forward Commitments			
- Expected slippage from 2005/6	468	67	
- Merrill School temp funding 2006/7	1,406	(1,406)	
- Mickleover Library	962		
- Multi-storey car parks	400		
- Eagle Centre lifts	165		
Total Commitments	3,401	(1,339)	0
Provision in Indicative Programme			
- Planned maintenance programme	775	800	825
- QUAD	831	200	
- Flood defence	290	329	275
- National care standards	351		
- Playground improvements	300	300	
- Multi-storey car parks		400	400
- Accommodation strategy (existing)	657	1,343	
- Accommodation strategy (revision)	(657)	657	
- Community centres (PPF funding)	50	50	
- Financial system replacement	400	500	
Total Indicative Provision	2,997	4,579	1,500
Total Potential Capital Expenditure	6,398	3,240	1,500
Potential Unallocated Surplus (Deficit)	(7)	303	1,856

4.6 Adjustments have been made to the indicative programme as follows:

- The planned maintenance programme has now been inflated by £25k in each year over the current 2005/6, to be consistent with the treatment of maintenance revenue budgets in the budget planning process.

- The principle that the corporate programme would need to make provision for the replacement of the Council's core financial systems was acknowledged in the 22 February 2005 Cabinet report recommending the 2005/6 to 2007/8 capital programme, although costs could not be estimated at that stage. A detailed report was taken to Cabinet on 14 June 2005 and the indicative funding requirement now shown is consistent with the mid range of costs estimated in that report. A report is due to be brought to 21 February 2006 Cabinet at the outcome of the tendering process. The new systems will facilitate potential savings from new business processes. Once firm plans are in place to deliver such savings it will be possible to consider whether elements could be treated as self-financing investment and with a reduced commitment from the corporate programme.

- The Council's Accommodation Strategy is dependent on the accumulation of a £10m capital reserve by March 2008, of which £8m will be in place by March 2006. Given the pressure on the 2006/7 programme, the £657k planned 2006/7 contribution has been rescheduled into 2007/8 to deliver the remaining £2m in 2007/8.

4.7 Based on these commitments and indicative plans, Table 3 demonstrates that most of the corporate programme is already potentially committed in 2006/7 and 2007/8. In addition, there are several further new potential investment pressures on the forward programme, including:

- Support for the Council's commitment to the neighbourhood agenda

- Large scale investment as part of the procurement to deliver the County-wide Waste Strategy, from 2008/9 and possibly from 2007/8

- The investment implications of the current review of existing sports facilities

- Possible investment in Childrens and Adults Social Services facilities that might help to limit pressures on revenue budgets but would not be self-financing within existing budgets

- Additional funding sought for flood defence measures in 2007/8 and 2008/9, additional to existing programme provision

4.8 Options now need to be worked up and presented to seek recommendations to Council by Cabinet on 21 February in respect of the 2006/7 programme and indicative or firm commitments against the 2007/8 and 2008/9 programmes, following review by Scrutiny Management Commission. The timetable is included within Appendix 3. Prior to this, the officer Asset Management Group will meet early in the new year to reconsider the prioritisation, costing and timing of the existing indicative schemes using the standard criteria previously approved by Cabinet, taking into account other potential investment needs, and its recommendations will be reported back. Given the pressure on the 2006/7 and future programme, the Group is not being asked to consider invite further new proposals for capital investment at this point. The scale of potential additional investment associated with the major schemes set out in Section 4.7 will be clarified separately and will inform the recommendations to Cabinet.

4.9 Corporate capital resources could potentially exceed the levels set out in Table 2, given that these are based on relatively but will need to fund the potential new commitments if further headroom is not found from the existing indicative programme.

5. Self-Financing Prudential Borrowing

5.1 In addition to the corporate programme, allocations of additional prudential borrowing may be made to support additional capital schemes on a self-financing basis. Spend-to-save schemes are those where the financing cost of the capital investment is matched or exceeded by direct revenue savings. Other self-financing borrowing may occur where financing costs are funded by contributions from existing revenue budgets. In both cases, there is a need for a revenue budget virement from specific service department budgets to the corporate Treasury Management budget to fund these schemes. The service department retains revenue savings over the financing costs.

5.2 Table 4 sets out for information details of the self-financing prudential borrowing that has been approved since the Council gained the ability to undertake unsupported borrowing in April 2004. It should be noted that some of this investment replaces schemes that were originally scheduled in the capital programme as being financed from leasing, a more expensive funding route. It demonstrates that the Council has been active in using its powers under the Local Government Act 2003.

Table 4: Approved Self Financing Prudential Borrowing

Scheme	2004/5 £000	2005/6 £000	2006/7 £000	2007/8 £000	Cabinet Approval Date
Rethink rubbish	616				9 Nov 2004
Closed landfill site - Darley		45			21 Feb 2005
Energy management		120			26 Apr 2005
Rev and Benefits ICT		365	370		6 Sept 2005
Home Computer Initiative	413	280			27 Apr 2004
Creative Industries	60	444	21		7 Sept 2004
Social Services ICT ESCR		208	283	205	29 Nov 2005
Grounds maintenance	89	480	345		Various
Refuse vehicles and plant	100	1,055	300		Various
Street cleaning plant/equip	650	172			Various
Total	1,928	3,169	1,319	205	

5.3 More schemes are expected to be brought forward for approval. Self-financing schemes can be approved at any point in the financial year, on a case-by-case basis, as they are not competing for finite corporate resources.

5.4 Cabinet on 14 June 2005 approved funding for the Connecting Derby programme including underwriting a local contribution of £7m to the scheme from a variety of sources. At that stage, it was estimated that between £400k and £2.42m of funding had yet to be identified, for which possible additional unsupported borrowing was identified as a potential source, in addition to a possible further contribution from the LTP or capital receipts. If unsupported borrowing were unavoidable, then, unless the current capital strategy principles were varied, this would need to be as self-financing prudential borrowing with the financing costs recouped from specific transportation revenue budgets. The funding gap is currently being reappraised as part of capital programme planning and is unlikely to impact before 2008/9.

5.5 Some further energy conservation projects may have become financially viable following the upward trend in energy prices during 2005, and it is possible that further schemes will be put forward to generate savings.

6. Timetable

6.1 The timetable for review and decision making on the capital programme is set out in Appendix 3.

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Principles to Guide Development of the Capital Programme – December 2005 Appendix 3 – Timetable for Capital Programme Review and Approval

IMPLICATIONS

Financial

1. As set out in the 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 guidance issued under the Act, including the Prudential Code for Capital Finance in Local Authorities issued by CIPFA. This allows for additional unsupported borrowing provided that this is consistent with the Prudential Code, particularly in terms of affordability.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. The process set out for approval 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 – December 2005

1. This paper sets out the principles to guide in 2005 and 2006 the development of the capital programme for the period 2006/7 to 2008/9. The principles have been updated from those adopted by Cabinet in December 2004.

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 including those for the Schools, Childrens, Transport, Housing and Adult Social Services service capital programmes. Schools SCE funding is ring-fenced. Although most 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 Schools and Transport services programmes will not seek additional allocations of corporate capital resources. The other service capital programmes may still seek supplementary allocations of corporate capital resources. Housing may seek allocations as some housing capital receipts above baseline planning levels are to be made available to the corporate programme, and other services have SCE allocations that are relatively small.

4. All capital receipts will generally be considered as available for corporate use, save for the following exceptions…
   - 25% of schools receipts will be earmarked for the school concerned and 50% for childrens services in general, potentially including schools
   - Receipts from discretionary disposals of housing land will be earmarked for investment in affordable housing and regeneration, 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 set originally in 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. In addition, the

accommodation element of supported housing investment will from 2006/7 onwards be funded through the housing capital programme.

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 schools 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 is required by the Council's Constitution, either where bids are made for above £250,000 or otherwise where a successful bid would still lead to a net cost which has not been budgeted for. 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 Government is now consulting on changes to the process, limiting s106 proceeds but providing for payments of cash from a general Planning Gain Supplement to local authorities from 2008. The scale of earmarking of s106 resources is determined by the s106 negotiation. Policies that determine the conduct and outcome of s106 negotiations therefore need to be clear, as does the Council's approach to future use of potential Planning Gain Supplement revenues. Cabinet will be asked to review further the existing policies on s106 contributions in this context.

12. Decisions on the allocation of corporate capital resources will ultimately be taken by Cabinet and Council, but choices will be informed by professional guidance from officers, including the Asset Management Group responsible for asset management planning across the Council.

Appendix 3

Timetable for Capital Programme Review and Approval

Date	Meeting	Item
10 Jan 05	AMG	Review of existing corporate programme
16 Jan 06	Planning and Environment Commission	Transport funded programme
23 Jan 06	Education Commission	Schools and other Education funded programme
24 Jan 06	Scrutiny Management Commission	Whole programme (as per 21 Feb Cabinet). Includes Corporate programme and all funded programmes not otherwise considered by the other commissions.
14 Feb 06	Community Regeneration Commission	Housing funded programme
21 Feb 06	Council Cabinet	Approval of whole programme subject to changes from commissions, and associated prudential indicators
27 Feb 06	Planning and Environment Commission	Transport funded programme (if not on 16 Jan)
1 March 06	Council	Approval of programme and if necessary delegation of powers to 14 March Cabinet for approval of Transport programme following consideration of Planning and Environment Commission responses
14 March 06	Cabinet	Final approval of Transport programme if necessary