DERBY CITY COUNCIL

COUNCIL CABINET
29 JULY 2008

ITEM 14

Report of the Corporate Director of Resources

CAPITAL PROGRAMME 2008/09 – 2010/11 – UPDATE

SUMMARY

1. The report summarises major developments relating to the capital programme since it was approved by Council on 3 March 2008 and makes recommendations to amend the programme to remain within available resources.

RECOMMENDATION

2.1 To note the capital funding shortfall of £6.981m, which is mainly due to the need to upgrade all the personal computers across the Council through an 'ICT Desktop Refresh Programme', Connecting Derby and Gayton Pool Capital schemes, and to propose funding this shortfall by a combination of:

- A carry forward amount of unallocated borrowing from 2007/08 (£0.360m)
- Unallocated Local Authority Business Growth Incentive (LABGI) grant (£0.655m)
- a detailed review of the capital programme with the intention of increasing the level of capital expenditure which can be supported from the base budget for unsupported borrowing (estimated at £5.488m)
- review of which schemes are funded from unsupported borrowing, to make best use of the regulations that relate borrowing costs to asset lives (£0.478m)

2.2 To offset the unallocated unsupported borrowing of £1.561m in the 3 March 2008 report against the £1.7m shortfall in capital receipts.

2.3 To allocate the £600k budget previously set aside for the 'Time and Place' project funded from corporate capital reserves, to the Cathedral Green project

2.4 To agree the revised programme for schemes funded by Growth Points for 2008/09 as set out in paragraph 3.8 and advise the Public Realm Board to manage the reduced allocation from £1.475m to £0.9m within the programme, and to manage the overprogramming in conjunction with the Derby Housing Market Area Board.

2.5 To rework a scaled back capital programme for 2009/10 and 2010/11 in order to remain within available Growth Point capital resources by the end of 2008.

2.6 To carry out repairs at Gayton Pool as a result of the court order decision at an estimated cost of £0.6m.

SUPPORTING INFORMATION

3.1 Since Council approved the capital programme on 3 March 2008, there have been some significant changes to the funding of the programme and some additional costs have been identified. This report makes recommendations relating to some key aspects of the programme which require early resolution. A report elsewhere on this agenda covers the capital outturn position for the 2007/08 financial year, and there will be a more detailed capital monitoring report for the current financial year going to Cabinet on 2 September 2008.

3.2 **Capital receipts forecast**

The capital programme has relied on a prudent estimate of capital receipts over the next three years. However, the current downturn in the property market has meant that a number of the assumed receipts are now at risk of not materialising, being delayed or coming in at a lower level. This includes right to buy receipts from the sale of Council houses, where there is now minimal levels of activity, so it is now prudent to assume no income being available to fund the corporate capital programme over the next three years.

3.3 The corporate programme assumed the following levels of receipts:

	£000
2007/08	5649
2008/09	2003
2009/10	1942
2010/11	663
Total	**10257**

The actual levels now expected are:

	£000	
2007/08	3165	
2008/09	280	
2009/10	4249	
2010/11	863	
Total	**8557**	**(**£1.7m lower than forecasted)

3.4 The receipts are predominantly being earmarked towards the accommodation strategy, which will therefore need to receive increased funding from other sources as proposed later in this report.

3.5 The latest position is that most sales are of land for residential redevelopment (both brown and green field) where the market for residential development land has almost collapsed in recent months. It is prudent not to put land on the open market at the moment unless absolutely necessary.

3.6 **Revised Growth Points allocation**

Growth Points funding comes from central government to support areas with growth in housing developments. Our allocation is part of an overall figure covering the Derby, Nottingham and Leicester Housing Market Areas. In setting the budget, we knew that the Derby Housing Market Area (HMA) had been allocated funding for the next three years. However, at that point, there had been no decision on how the allocation would be divided between the authorities within the HMA. We stated in the budget report that: "The Housing Market Area also covers parts of South Derbyshire and Amber Valley, so the allocation cannot be seen as exclusively for use in the city. The funding priorities will need to be discussed across the Housing Market Area and with partner local authorities."

3.7 The total allocation for the Derby HMA in 2008/09 is £2.590m. Projects totalling £2.375m were approved in the budget report in March 2008. In selecting these, we made reference to the schemes listed in the "Programme of Development" submitted to central government. There was only a limited amount of input from South Derbyshire and Amber Valley at that stage as the 6Cs Partnership had previously involved only the upper-tier authorities.

3.8 The allocations actually agreed between the authorities, based on housing developments in each area, have resulted in Derby receiving £1.550m, which is £825k less than we budgeted for. The allocation includes 15% for over programming and if we exclude this, the allocation would be £1.348m which is £1.027m less. The revised 2008/09 programme proposed from Growth Points funding is:

Project	**Initial allocation £000**	**Revised allocation £000**
Bus Station - improved concourse	250	250
City centre public realm improvements (Shop front improvements, Theatre Walk contribution, Full St, Castleward Boulevard, World Heritage site)	1475	900
Affordable housing	500	250
Littleover/Blagreaves City Park	150	150
Derby City Total	**2,375**	**1,550**

3.9 The Public Realm Board will need to manage the reduced allocation from £1.475m to £0.9m within its programme, taking into account the likely allocations in 2009/10 and 2010/11. The Board will also need to plan, in conjunction with the Derby HMA Board, to manage the overprogramming in 2008/09.

3.10 In the budget, the assumed allocations from Growth Points were £2.175m in 2009/10 and £1.660m in 2010/11. There is likely, therefore, to be a further shortfall of at least £1m over these two years. City Park (£2.01m) and affordable housing (£1m) were the main components of the total budget of £3.835m. We will propose a scaled back capital programme in 2009/10 and 2010/11 to remain within available capital resources, and this will be brought back to Cabinet before the end of the year.

3.11 **Revised Public Realm programme**

The Public Realm programme forms part of the overall Council capital programme and is largely funded by unsupported borrowing, but also from other sources including Growth Points funding. The Public Realm Board is responsible for managing the schemes.

3.12 At its budget meeting on 3 March 2008, the Council agreed an amendment to the proposals agreed by Cabinet. This deleted provision for the “Time and Place” scheme “with this provision being held in reserve within the Public Realm fund for use on a more considered, appropriate project to mark the completion of the Public Realm Programme.” This scheme was to have cost £1.2m, with £600,000 funded from unsupported borrowing and £600,000 from external funding (section 106). The £1.2m is therefore now available for other purposes.

3.13 The Cathedral Green project has been delayed beyond the end of the 2007/08 financial year. The estimated additional cost in 2008/09 is £477,000 which would otherwise have been funded by central government. This could be funded by the funding released from Time and Place. Reviews of other schemes are linked to the Growth Points proposals.

3.14 **Unallocated corporate funding**

Prudently at the time of the budget meeting on 3 March 2008, the approved capital programme did not allocate all the potential funding available because of the risk of capital receipts and the Growth Points allocation being lower than expected. The amount held unallocated was £2.341m across the three years of the programme. This consisted of £1.561m of unsupported borrowing and £0.780m of Growth Points funding. There is also an amount of £0.360m arising from underspends on corporately funded schemes in 2007/08.

3.15 The £1.561m of unsupported borrowing can be offset against the reduction in capital receipts. The £0.780m of Growth Points funding related to the balance between proposed schemes and the total allocation for the Derby Housing Market Area. Given the split between authorities for 2008/09, we should not assume that this sum will be available to us, and it should be deleted from the programme.

3.16 **Schemes funded from LABGI**

Cabinet on 22 April 2008, approved the addition of Chaddesden Library and Alvaston/Racecourse parks schemes, to be funded from the Local Authority Business Growth Incentive (LABGI). Approval was subject to a scheme commencement report coming back to Cabinet. The Alvaston/Racecourse parks schemes will not know until October whether they will receive external funding from the Football Foundation, so we are not yet in a position to submit a scheme commencement report. The initial costing for Chaddesden Library has come in £98,000 more than the previous estimate which can be fully funded within this programme.

3.17 There is a remaining balance on LABGI of £0.655m. Cabinet agreed on 22 April 2008 that this would be held “in corporate revenue reserves for future revenue or capital budget pressures and risks”.

3.18 **Primary capital programme**

The Primary Strategy for Change has been submitted to the Department for Children, Schools and Families – DCSF - and we now need to add the proposed individual schemes to the capital programme, subject to government approval of the strategy. This is expected or otherwise, by 30 September 2008. To meet the required timescales, we need to start planning now on design and feasibility work. As the total funding available includes uncommitted funding from existing DCSF grants, this will have to stand the risk should there be any issues.

3.19 The schemes set out in the submission, which now need to be added to the programme, are:

Funding available 2009- 2013		Notes
	£m	
Primary Capital Programme	17.6	
Existing DCSF funding	8.0	Assumes £2m uncommitted each year
Section 106	1.0	Developers' contributions part-funding schemes at Markeaton Primary and Ravensdale Junior
Schools Access Initiative	0.1	To fund lift at Markeaton Primary
Capital receipts	0.2	Assumes 25% of receipt from Ashgate Primary building
Total	**26.9**	
Proposed schemes		
Ashgate Primary	7.3	New build or remodelling/extension – options appraisals continuing
Ravensdale Junior	1.3	Extension and condition work
Meadow Farm Primary	0.7	Additional community space linked to Children's Centre scheme
Markeaton Primary	1.8	New kitchen, additional hall space and lift
Learning Platforms	0.3	
Arboretum Primary	3.5	Remodelling of the school to improve internal circulation and improved access for children with mobility difficulties
Firs Estate Primary	1.0	Reduction of surplus places by using space for other community use
Total	**15.9**	
Balance for area reviews	**11.0**	

3.20 The balance of £11m for area reviews is to fund schemes emerging from reviews of school places which will take place over the next couple of years in different parts of the city. The cost of a new two form entry primary school is currently in the region of £7m - £8m.

3.21 **Asset lives and prudential borrowing**

New regulations on prudential borrowing mean that costs have to be calculated on the basis of asset lives of individual schemes. We need to recalculate the revenue borrowing cost for each scheme funded by borrowing. Where there are schemes with short asset lives and consequent high annual repayments, such as those for ICT, these will need to be swapped with schemes funded from other sources. This exercise will take place over the next few months and, as the majority of schemes funded by borrowing relate to buildings with longer asset lives, it is anticipated that this will release savings, though this cannot yet be quantified.

3.22 **Youth facilities**

During the budget process, there were discussions on the need for improved provision for youth facilities, such as a city centre skateboard facility, youth shelters and a climbing wall in Oakwood. Environmental Services are working to put together bids into the Youth Opportunities and Youth Capital funds.

3.23 **ICT developments**

As part of the ICT re-tender project where we are due to let a new contract with effect from 1 April 2009, we need to undertake a full replacement of our desktop computers from 2009/10. This cannot be funded from prudential borrowing because of the short asset life, so there will need to be a switch with other sources of funding. There is around £2m funding built into proposals linked to the accommodation strategy. We also need to identify capital funding of a further £2m to fund ICT replacement, outside the Council House and City Centre Council buildings - this has not been previously highlighted.

3.24 **Connecting Derby**

We need to make provision for an additional £2.926m expenditure because of higher than expected construction industry inflation and extra costs arising from delays in starting the scheme.

3.25 **Gayton Pool Repairs**

As a result of the recent court order we are legally obliged to carry out repairs to Gayton Pool. Current estimate of the work are in the region of £0.6m.

3.26 **Overall funding position**

The overall funding position is shown below. If the capital programme is adjusted as set out in recommendations 2.2 to 2.6 above, then there are £6.981m of capital pressures unfunded, relating mainly to ICT, Connecting Derby and Gayton Pool Repairs. The shortfall can be funded by a combination of:

- The balance of unallocated borrowing from 2007/08 (£0.360m)
- The balance of unallocated LABGI (£0.655m)

- a detailed review of the capital programme with the intention of increasing the level of capital expenditure which can be supported from the base budget for unsupported borrowing (estimated at £5.488m)

- A review of which schemes are funded from unsupported borrowing because of new regulations which mean that calculations of annual borrowing repayments have to be made for each scheme depending on the asset life. This means that ICT, with a short asset life, is very expensive to fund from borrowing, while the cost of new buildings can be spread over a longer period (£0.478m).

An updated position will be reported as part of the capital strategy report in the autumn.

Summary of funding changes

	£000
Reduced forecast of capital receipts	(1700)
Unallocated prudential borrowing	1561
Reduced Growth Points allocation	(2166)
Cathedral Green funding shortfall	(477)
Time and Place allocation	600
Total funding changes	**(2182)**

Summary of cost changes

Chaddesden Library additional cost	98
ICT developments	2000
Connecting Derby	2926
Reduction in spending on schemes funded by Growth Points	(825)
Gayton Pool Repairs	600
Total expenditure changes	**4799**

Total of reduced funding and increased cost = £6.981m

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Background papers:	None
List of appendices:	Appendix 1 – Implications

IMPLICATIONS

Financial

1.1 As set out in the report.

Legal

2.1 None directly arising.

Personnel

3.1 None directly arising.

Equalities Impact

4.1 None directly arising.

Corporate objectives and priorities for change

5.1 The capital programme is set taking into account corporate objectives and priorities.