DERBY CITY COUNCIL

COUNCIL CABINET
19 DECEMBER 2006

ITEM 16

Cabinet Member for Corporate Policy

Capital Strategy 2007/8 to 2009/10

SUMMARY

1.1 This report sets out a strategy for the development of the Council's capital programme over the next 3 years. The major issues it seeks to develop are:

- Some changes to the principles to make sure the use of capital resources is considered corporately.

- A prioritisation process for the corporate capital programme, which allows exsisting commitments to be delivered, and any new proposals to take account of the maintenance backlog in the asset management plan and the need to continue to invest in ICT infrastructure.

- Recognition that in order to fund the significant change programme needed for the city, additional prudential borrowing will be needed, subject to affordability within the revenue budgets. In particular this relates to
  - Further investment in council owned properties to address the repairs backlog
  - Investment to modernise the council's city centre office accommodation including the Council House
  - The delivery of the Public Realm strategy for the City Centre

- Sustainable service capital programmes aimed principally at Children and Young Peoples Services, Housing and Adult Social Services, and Highways and Transportation.

- Wherever possible it is proposed to take advantage of external funding opportunities particularly in the Cultural and Leisure Service areas consistent with the Council's corporate priorities and asset management plan.

1.2 Approval needs to be sought now to commence the design phase of the East Street Refurbishment scheme in 2006/7, with a view to letting a contract early in 2007.

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

RECOMMENDATIONS

To recommend to Council………

2.1 An updated and amended set of principles to guide the allocation of funding to support the capital programme from 2007/8 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 3.1 and 3.2 and Table 2.

2.3 To approve the addition to the capital programme of the East Street refurbishment scheme to the 2006/7 and 2007/8 capital programme at a total estimated cost for the two years of £1.4m.

2.4 To approve, at this stage, the commencement of spending on the East Street refurbishment scheme design fees only, at a total estimated cost of £100k funded from the Derby and Derbyshire Economic Partnership -DDEP.

2.5 To confirm the process and timetable for taking decisions on the detailed content of the capital programme for 2007/8 to 2009/10, set out in Appendix 3.

DERBY CITY COUNCIL

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19 DECEMBER 2006

Report of the Corporate Director of Resources and Housing

Capital Strategy 2007/8 to 2009/10

SUPPORTING INFORMATION

1. Introduction

1.1 The Council's existing capital programme covers the period 2006/7 to 2008/9. The programme for 2007/8 to 2009/10 is now under development and will be consulted on in January and February 2007 as part of the budget process. The programme has been updated as specific decisions have been taken during 2006, with the latest report being 28 November Cabinet detailing the current position of the 2006/7 programme. Figures in this report are consistent with that updating report.

1.2 This report sets out the framework against which the programme is now being developed further for the period 2007/8 to 2009/10, leading up to formal approval by Council in March 2007. Some changes to the principles adopted in planning for previous years are proposed; in response to changes in the way the Government supports capital spending and the consequences of deterioration in the level of external receipts.

2. Underlying Changes to the Capital Strategy

2.1 The principles that currently underpin the development of the capital strategy were first developed in August 2003 and last updated in December 2005. 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 are ring fenced to particular services, either through Government/external decision or the application of the principles in the strategy. The principles address the process of how this division is made.

2.2 Some changes over the past year necessitate a reappraisal of these principles …

- The need to reassess the affordability of the capital programme: Cabinet on 1 August received a report that set out how the outlook for the Council's general fund revenue finances had deteriorated since March 2005, and initiated a process of savings reviews across all budgets. The Treasury Management budget funds the revenue cost of borrowing in support of the capital programme, and the extent of savings in costs depend on savings in the level of capital spending supported by borrowing and other internal resources.

- The withdrawal of government revenue support for ‘supported’ borrowing: For capital spending funded by this method (such as schools, highways infrastructure and flood defence scheme for example) there was effectively no marginal cost to the council tax payer when proceeding with such schemes. This changed in 2006/7 Revenue Support Grant settlement. For the 2007/8 settlement, only 31% of the marginal cost of new ‘supported’ borrowing schemes will be backed by equivalent revenue support grant, although this percentage is expected to increase in 2008/9. The Council must therefore reappraise the affordability of its existing capital programme in terms of the whole of the programme supported by borrowing or other internal funds, rather than limiting that appraisal to the corporate programme alone.

- Low levels of housing right to buy receipts: Housing sales are now at particularly low levels, with only 120 sales now being expected in 2006/7. Overall income from this source is now projected at £1.3m below planned levels in the period 2006/7 to 2008/9. This trend is a national phenomenon - national sales fell from 48,983 in 2004/5 to 26,655 in 2005/6 following legislative changes. The current principles earmark income from right to buy receipts for housing use to maintain a core level of housing investment equivalent to that which preceded the Derby Homes Pride programme, with the balance being available to the corporate programme. The fall in right to buy receipts will therefore impact only on the corporate programme and will leave the contribution to the corporate programme at minimal levels.

2.3 An amended set of principles is put forward for adoption in Appendix 2 and the changes are explained below.

2.4 The principles still maintain the distinction between the funded service programme and the corporate programme, in spite of the limitations on Government funding of ‘supported’ borrowing. Those limitations are expected to have their greatest impact in the early years of a capital scheme, but less impact over the whole life. If the Council did amend its policy, so that ‘supported’ borrowing was not undertaken in spite of a Government allocation of some support to a scheme, then such a policy could over time prejudice the prospect of future allocations by Government.

2.5 Instead, it is proposed that the Council should place greater limits on the extent to which internal capital funds – normally capital receipts – are earmarked to specific services rather than being available for corporate allocation. The specific changes put forward are as follows …

- That 50% of any receipts from disposals of any miscellaneous HRA housing properties should be made available to support the corporate programme, subject to their use for regeneration purposes. The current policy provides for 100% use of these receipts for housing or regeneration purposes and is therefore ambiguous on the extent to which receipts were available for purposes other than housing. ‘Regeneration’ is interpreted in so far as uses need to be consistent with national legislation to avoid any part of the capital receipt being nationally pooled.

- That the share of receipts from school capital receipts should be amended so that a greater proportion be available for corporate prioritisation in line with priorities. Schools and Children's Services generally can still seek support through this corporate process, but that retention will not be automatic. This action is justified given the scale of devolved capital funding now provided to schools by DfES. It is now proposed that 25% of net sale proceeds accrue to schools, with the remainder to be assessed corporately. Where whole school sites are disposed of, for example due to closure or merger, then 100% of proceeds would be for corporate consideration. This policy will be applied to all receipts other that those currently expected by 2007/8 in relation to Merrill School, St Mary's school playground and Normanton Junior School, these three disposals having been planned for on the basis of an allocation consistent with the previous policy. Receipts from closed schools will be 100% corporate.

- An internal accountancy review is being conducted across all services to establish the extent of dormant capital balances, which have lain unused for many years and against which there are no developed plans for spending. Cabinet will be asked in due course to review such balances and the extent to which they might be reallocated as a corporate resource. It is expected that up to £300k could be identified.

2.6 There has been a tendency to overstate problems of affordability in initial capital budget planning, through optimistic assumptions on the pace of programme delivery, thereby exaggerating the speed at which capital spending is likely to impact on the revenue budget. To address the affordability issue, the principles are therefore expanded to clarify that programmes must be planned to avoid this and that approved allocations cannot be assumed to be retained where slippage could have been avoided by better initial profiling to anticipate reasonably predictable delays. There is a particular expectation that the schools and corporate capital programmes will be much more realistically profiled, based on past evidence of slippage.

2.7 The principles have also been expanded to clarify that capital funding for trading services will be expected to be funded through self-financing prudential borrowing, the borrowing being paid for through user charges. This applies to any service, which is provided with significant income generation and can be expected to be self-financing.

2.8 The existing principles already clarify that the schools and transport capital programmes should be contained within the resources earmarked for funded service programmes. This means that any potential overspending on those programmes would need to be contained through deferral of schemes to later years in the last resort.

2.9 Capital receipts may still be retained by services, where the disposal is directly and necessarily linked to a replacement asset, subject to individual approval by Council Cabinet.

2.10 The advisory role of the officer Asset Management Group in respect of corporate programme allocations is recognised and retained in the principles. However, it is necessary to clarify that the Group's concerns are with the building elements of the asset management plan, and some issues on non-building or wider strategic elements of the corporate programme fall outside of its remit. Final decisions determining the content of the programme rest with Cabinet and full Council.

3 Development of the Corporate Capital Programme

3.1 Table 1 shows the estimated balances available for the corporate programme. These are based on the following assumptions

- There will continue to be a core commitment of £2m unsupported borrowing per annum, in support of the capital programme, consistent with revenue budget planning.

- Capital receipts have only been included on a reasonably prudent basis and have been shared in accordance with original principles until the new proposals in this strategy have been approved.

Table 1: Available Funding for Corporate Programme – November 2006

	2006/7 £000	2007/8 £000	2008/9 £000	2009/10 £000
Accommodation Capital receipts reserve		7,000		
Unsupported borrowing	4,264	2,502	2,053	2,000
Capital Receipts	1,530	3,386	200	200
Capital Reserves/revenue	911	250		
Total Funding available each year	6,705	13,138	2,253	2,200

3.2 An updated projection of existing planned corporate capital spending is summarised in Table 3. This is generally as set out in the forward capital programme approved in February 2006, updated for later changes consistent with the separate capital programme monitoring reports to September Cabinet and November Cabinet. Note that …

- The figures include previous indicative allocations within the forward capital programme, which now require review as explained below.

- Two additions have been made to create an initial indicative programme in 2009/10 – the continuation of the core £825k per annum block funding for the corporate capital building maintenance programme, and the allocation of a further £1m to assist in delivery of the Council's Accommodation Strategy. Accommodation Strategy earmarked funding within the corporate programme is now assumed to be spent in the year in which funds are available.

- The addition of a spending programme for ICT infrastructure works which are required to upgrade the current core IT network throughout the authority.

Table 2: Corporate Capital Commitments and Indicative Allocations from 2007/8

	2006/7	2007/8 £000	2008/9 £000	2009/10 £000
Funding Potentially Available each year (Table 2)	6,705	13,138	2,253	2,200
Less potential deficit brought forward from previous year	0	(1,461)	(353)	(278)
Net funding potentially available in year	6,705	11,677	1,900	1.922
Existing Schemes				
- National Care Standards	437			
- QUAD	831			
- Assembly Rooms Lighting	4			
- Multi Storey Car Parks	426			
- Eagle Centre Lifts	190			
- Boiler Replacement	50			
- Mickleover Library	951	134		
- Chaddesden Park Wheeled Sports	6	67		
- Alvaston Park Changing Rooms	35	35		
- Financial system replacement	770	103		
- Temporary funding – Merrill	1,406			
Total Commitments	5,106	339	0	0
Provision in Indicative Programme				
- Planned maintenance programme – core	1,068	830	825	825
- Planned maintenance programme – additional 2006/7 and 2007/8	1,500	500		
- QUAD Landscaping		200		
- Flood defence	124	511	53	
- Playground improvements	288	350	50	
- Accommodation strategy		9,000	1,000	1,000
- Community centres (PPF funding)	80	50		
- ICT Infrastructure		250	250	250
Total Indicative Provision	3,060	11,691	2,178	2,075
Total Potential Corporate Capital Programme	8,166	12,030	2,178	2,075
Potential Unallocated Surplus (Deficit) carried forward	(1,461)	(353)	(278)	(153)

3.3 Taking account of these commitments and resource assumptions, there would be a £153k deficit at the end of 2009/10. This position will be updated as resource allocations are confirmed, although until capital receipts are received there is an element of uncertainty. The final approved programme in February 2007 would need to be set at the assumed level of resources at that time to set a balanced programme.

3.4 If revised principles at Appendix 2 are approved this could provide in the region of £1.5m corporate reserves for 2007/8. This will be taken into account when setting the final programme.

Scope for further Investment

3.5 The revenue budget strategy requires the delivery of 10% revenue savings over three years. If this were achievable it would allow potentially the authority to meet further unsupported borrowing revenue costs of up to £2m in each of the next three years. This in turn would sustain a £60m programme targeted at:

- Asset Management backlog maintenance
- Accommodation Project (essentially the Council House refurbishment)
- Public Realm Strategy for the City Centre
- Neighbourhood Priorities

3.6 The level of further investment in these areas from additional unsupported borrowing will be wholly dependant on the actual level of revenue savings delivered in the 2007/08 to 2009/10 budget. The scale of further capital investment plans cannot therefore be set until the affordability level of additional unsupported borrowing is determined when the Revenue Budget is approved in February 2007. There would then need to be a managed rollout of capital investment linked to the delivery of revenue savings.

3.7 Proposals for incremental levels of further investment in these areas will be drawn up in anticipation of some additional unsupported borrowing being made available for 2007/8 to 2009/10.

Backlog Maintenance

3.8 The current asset backlog maintenance stands at £108m with the buildings requiring maintenance not really suitable for the purpose intended. The maintenance strategy has endeavoured to identify areas where other decisions are required to aid the reduction of the backlog maintenance, these include:

- Options for the accommodation of the authority's service delivery staff
- A review of Sports Facilities within the city
- Creation of a museums rationalisation strategy
- A review of the adult/children's care homes and day centres
- Disposal of surplus assets
- Levering in of external funds
- Schools
    - Work through the capital programme
    - Creation of PFI schools
    - Building Schools for the Future Initiatives

All of the above measures are currently underway and if successful will help reduce the pressure on the maintenance of the Council's buildings.

3.9 The 2006/7 to 2008/9 capital programme provided an additional £2m to planned maintenance to alleviate some of the pressures faced by the asset management team. The revenue and capital budget is currently fully committed to keeping buildings safe and undertaking disabled adaptations, with no real impact on the growing backlog total or the provision of buildings fit for modern service delivery.

3.10 The current maintenance strategy, making priority use of the level of resources available, has to focus on work to ensure buildings are made safe and operational. This includes ensuring those buildings identified as being at risk are regularly monitored and temporary measures put in place or even closure of unsafe buildings, and patch and mend solutions where possible. In addition, other increasing demands on property officers' e.g. Regulatory reform (Fire Safety) Order take more resources away from tackling the backlog issue.

3.11 Further resources would enable a more planned and pro-active maintenance strategy to reduce the maintenance backlog and support the provision of an asset base suitable for the delivery of modern and efficient services. This would be progressed through the Asset Management Group. Suitability for medium and long-term service needs would be considered through option appraisals to develop a programme of refurbishment and provision of new facilities.

Accommodation Strategy

3.12 Accommodation options are currently being evaluated with the aim of making a decision in Spring 2007. The set aside for the accommodation stands at £7m with a further £2m to be saved in 2007/8 and £1m in 2008/9. This will need to be supplemented by unsupported borrowing, funded from within the overall option appraisal affordability test, to provide future accommodation fit for modern and efficient working practices and excellent service delivery.

City Centre Public Realm Strategy

3.13 In April 2003 local and regional partners from the public and private sectors joined forces to form Derby Cityscape in order to deliver comprehensive change in the city centre. A Master plan was published in January 2005.

The Public Realm Strategy document sets out a strategy for the design and delivery of a high quality co-ordinated city centre public realm in accordance with the Master plan. This will be formally adopted following consultation in Spring 2007.

The Public Realm Strategy (PRS) aims to be ambitious and catalytic, with the capacity to transform the City Centre and enhance the unique identity of Derby through the provision of the best possible public realm. In turn the PRS will assist in promoting an improved quality of life for residents and visitors alike, and strengthen investor confidence in Derby. The Strategy responds to local distinctiveness and considers existing examples of local and national best practice and precedent.

The first part of the Strategy sets out public realm design principles and the concepts, which inform the Strategy. It identifies key City Spaces and important pedestrian routes or City Pathways, which connect the spaces and provide links to the riverside. Two design themes are also introduced: City Vision and The Hidden River. City Vision addresses how people orientate themselves and find their way around the city centre while The Hidden River considers how the design of the public realm can respond to the River Derwent and its role in shaping the City.

3.14 It is envisaged that the PRS will provide a programme of many different scheme options requiring a significant investment in the region of £56m over several years, with a target of half of the funding coming from external partners.

Two schemes have already been identified for early progress as follows:

- East Street pedestrian area, which ideally needs refurbishing by next September at an estimated cost of £1.3 million. This will coincide with the opening of the extended Eagle Centre which will create a huge surge in visitors to Derby. East Street will be a primary pedestrian route and its current appearance reflects badly on the image the Council wants to project for the city. The proposed project will remove clutter and refurbish East Street, Exchange Street and potentially Albion St.
- City Spaces - Cathedral Green, for which some external funding has already been secured from central government grant for this scheme.

In relation to the East Street scheme it is intended to pursue the design stage based on Cityscape's Public Realm advice. This will commence immediately at an estimated cost of £100k funded from a potential grant from the DDEP.

4. Development of the Funded Service Programme

4.1 Consistent with the updated principles, funded service programmes will be financed mainly 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. These will be spent on the service to which they are allocated.
- Supported Capital Expenditure (Capital) (SCE-C) grants from Government specific to service programmes.
- Earmarked proceeds of S106 receipts, subject to further procedural review around the introduction of Planning Gain Supplement.
- 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.

4.2 For the purpose of clarity, there will be in future three named service capital programme heads:

- Children and Young People
- Housing and Adult Social Services
- Highways and Transportation.

All other projects and schemes, including self-funded development will be included in the corporate programme.

Children and Young People

4.3 The main funding allocations are for schools with some modest allocations for non-school services. Some service areas, in particular Children's Social Services budgets may need to seek access to the corporate programme, although the National Care Standards programme is nearing completion. A key issue within this new joined up service is the lack of funding for integrating services for children.

4.4 The scale of investment for schools in 2007/8 will include:

- Replacing Sinfin School £19m
- Targeted capital (50%) £5.7m
- Devolved schools funding £4.4m
- Schools capital – local authority managed £4.9m
- Sure Start £2m
- Other external funding including Derwent New Deal £?m

Many of the proposals, which will come through, the prioritisation, will involve joining up of these funding streams. Post 2008, the comprehensive spending review will determine the next three years allocations.

4.5 Delivery of the plan will need to take account of a number of issues including prioritisation to address important condition issues, the capacity of the asset team to deliver these programmes and timing issues in particular regarding school term times.

4.6 A critical issue to impact on the forward programme is Building Schools for the Future (BSF). The Council has submitted proposals to be included in Wave 5 for secondary schools, commencing in 2008. A decision is expected in December 2006. Important decisions on the shape of the delivery mechanisms and creating capacity to implement will be needed shortly. Information on promised funding approaches for primary schools is awaited.

4.7 Detailed proposals for individual schemes in relation to schools will be assessed by the Asset Management Group and will be submitted to the Children and Young Peoples' Commission in January prior to Cabinet approval. Wider consultation will take place on major projects. Where reorganisation of schools is proposed statutory notices will be required.

Housing and Adult Social Services

4.8 Historically, adult social care has not had specific funds allocated and in general refurbishment of Council run homes has been financed from disposals as the demand for residential care has declined. The integration of the programme within housing is a local initiative to promote a greater focus on the housing needs of the elderly to make sure proposals and funding are joined up.

4.9 The housing programme has been undergoing change. Non-council housing capital support has been shifted from borrowing to capital grant. Allocations are made by a Regional Housing Board following a competitive bidding process. Proposals need to be integrated in partnership with other housing providers in the City.

4.10 Supported borrowing continues for council housing, however following the completion of the decent homes programme, no additional funding is anticipated over the next few years, with the emphasis now switched to decent homes standards for the non-council housing sector.

Highways and Transportation

4.11 The Local Transport Plan2 (LTP2) was submitted to government in March 2006 and includes a five-year capital funding programme for a County wide joint plan for integrated transport and maintenance. The maximum investment for transport for 2007/8 – 2010/11 based on 125% for maximum performance reward funding would be as follows: -

- Integrated Transport £32m
- Maintenance £6m

4.12 Other major funded schemes are:

- Connecting Derby £19m
- London Road Rail Bridge £2m
- IRRMS £3m originally for 2007/08, now being applied in 2006/07

4.13 Within the LTP process there is a potential for further capital funds from exceptional scheme bids to develop strategic corridor improvements, and the Transport Innovation Fund (TIF) – for big infrastructure improvements e.g. park and rides, major bus priorities etc. However the TIF is tied to a commitment to deliver more robust travel demand restraint.

4.14 Derby Area Transport Study has identified future transport problems, which need to be addressed. The long term transport strategy approved by Cabinet as part of the LPT2 approval focused on six elements: -

- Land use policies
- Smarter choices
- Local safety and accessibility improvements
- Strategic public transport improvements
- Strategic traffic management and demand restraint
- Maintenance of transport infrastructure

The programme will be developed according to the strategy with consultation through the area and neighborhood processes and with stakeholders, and will also need to take account of, likely future capital funding (TIF), other funding (S106) and future development pressures.

Other Service Priorities

4.15 There are a number of other large-scale programmes under development. These include:

- Area and neighborhood working – The 2006/7 programme includes £970k capital expenditure for setting up the NEAT teams. Further capital requirements will be considered for funding from the LAA through the partnership. A capital scheme to be progressed through area neighborhood is Sunny hill community centre.
- The waste strategy - £50m of capital investment required in recycling/energy to waste plant in partnership with Derbyshire County Council
- The street lighting PFI - £40m+ investment subject to affordability
- Sports leisure and parks facilities investment programme, which includes the already confirmed scheme for Springwood (including a provision of a library), and developing schemes for Moorways and Shaftesbury.
- Bids to the Heritage Lottery Fund for World Heritage for the museums refurbishment including the Silk Mill Museum.
- Review and refurbishment of other community centres. The Environmental Services Department is continuing to try and secure external funding to progress schemes including St Augustine's approved by Cabinet in October.
- Derby Play Strategy will increase the overall quality of play for all children and young people in Derby. The strategy is required to enable the Council to draw down funds available from Big Lottery Funding.

4.16 These all require significant leverage from external contributions and the private sector.

4.17 Where funded service programmes will include scheme proposals dependant on securing external funding rather than applying confirmed allocations, this will be separately identified and the schemes only approved in principle until funding is secured.

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 core 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 3 sets out for information details of the self-financing prudential borrowing that has been approved for future years. This is in addition to those in progress in 2006/07. 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 3: Approved Self Financing Prudential Borrowing

Scheme	2007/8 £000	2008/9 £000	2009/10 £000	Cabinet Approval Date
Rethink rubbish	908			9 Nov 2004
Grounds maintenance	50	50		Various
Refuse vehicles and plant	100	100		Various
Street cleaning plant/equip	50	50		Various
Spend to Save				
Energy management	120	120		26 Apr 2005
Friargate Studios	34			
Social Services ICT-electronic social care records	205			29 Nov 2005
Total	1,467	320	0	

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 Departments are being encouraged as part of service savings option appraisals to consider the use of self-financing unsupported borrowing to re-shape service delivery.

6. Timetable

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

For more information contact:	Carolyn Wright, Head of Accountancy 01332 255349 carolyn.wright@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Principles to Guide Development of the Capital Programme 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 priorities

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 2006

1. This paper sets out updated principles to guide in 2006 and 2007 the development of the capital programme for the period 2007/8 to 2009/10. These update those in the December 2005 capital strategy.

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, Children's, 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 reserved for allocation through the corporate capital programme, save for the following exceptions…
   - 25% of schools receipts will be earmarked for the school concerned and 75% will be earmarked for the corporate programme. Proportions in the December 2005 capital strategy will be applied for certain specific disposals already planned up to 2007/8. Children and Young People will continue to be able to bid for these resources alongside others. Proceeds from the sale of 'closed' school sites will be considered corporately.
   - Receipts from discretionary disposals of housing land will be earmarked for investment in affordable housing and regeneration, to comply with ODPM conditions. 50% will be earmarked for housing, the other 50% will be earmarked for regeneration purposes within the corporate programme.
   - 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 previous programmes, including £200k earmarked for the accommodation element of supported housing investment within this allocation.
   - Capital receipts will generally be retained for service use where the generation of the receipt is directly and necessarily linked to a replacement investment, and confirmation through a specific Cabinet decision in each case.

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 co-operation 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, beyond the core £200k earmarked allocation.

6. Service programmes will generally be expected to fund investment, which can be funded from savings or additional revenues that result from the investment, and additional prudential borrowing can be undertaken in such circumstances, subject to compliance with financial procedure rules. Capital funding for external trading services whose purpose is mainly commercial will be expected to be funded through this route, the borrowing being paid for through increased user charges.

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, subject to compliance with financial procedure rule E12A. 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. 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. For example, officers within the corporate Asset Management Group will advise on priorities relating to the building aspects of the corporate capital programme, within the framework set by the capital strategy.

Timetable for Capital Programme Review and Approval

Date	Meeting	Item
Nov/Dec 06	Cabinet members	Consider scheme priorities within the funded service element of the capital programme
12 Dec 06	AMG	Review of priorities within corporate building programme
9 Jan 07	All scrutiny members	Consider revenue and capital budget strategy
15 Jan 07	Community Commission	Transport funded programme Housing programme
22 Jan 07	Adult Services and Health Commission	Housing programme (for Supported Housing elements) Adult Social Services programme
22 Jan 07	Environment Commission	Environmental Services programme
23 Jan 07	Children and Young People Commission	Schools and Children’s Social Services programme
30 Jan 07	Scrutiny Management Commission	Whole programme
20 Feb 07	Council Cabinet	Approval of whole programme subject to changes from commissions, and associated prudential indicators
1 Mar 07	Council	Approval of programme and if necessary delegation of powers to 20 March Cabinet for approval of transport programme following consideration of community commission responses
20 Mar 07	Cabinet	Final approval of Transport programme if necessary