DERBY CITY COUNCIL

SCRUTINY MANAGEMENT COMMISSION
1 February 2011

ITEM 9

Report of the Strategic Director of Resources

DRAFT - Capital Budget 2011/12 to 2013/14 – for consideration by Scrutiny Management Commission on 1 February 2011

SUMMARY

1.1 The report sets out the 2011/12 to 2013/14 capital programme for consideration by Scrutiny Management Commission. The main areas of the £277m programme over the next three years are:

- £32m for the Council's accommodation strategy funded from corporate unsupported borrowing.

- £11.8m capital implementation costs for computer applications and infrastructure to deliver the Council's one Derby one Council transformation programme funded from capital receipts.

- £45m to deliver the Council's Leisure strategy which will include a new 50 metre swimming pool together with the creation of a Multisports Arena and new athletics track. A further £5m would be required in 2014/15 to complete the full £50m programme. The spending profile across years will need to be spread to avoid VAT costs within the VAT 'Partial Exemption' rules.

- £25m to deliver the jointly funded waste disposal plant alongside Derbyshire County Council funded from service financed unsupported borrowing.

- £63m Children and Young People's department programme including the Building Schools for the Future schools and the Primary Capital programme; repairs, maintenance and improvements to the fabric of school buildings and devolved funding to schools, of which the majority is funded from specific grants together with supported borrowing and external contributions .

- £45.5m Housing programme. Many council-owned houses will get new PVCu windows and doors, new kitchens and bathrooms, heating systems and other repair and refurbishment work, funded through £34.6m from the Housing Revenue Account. A further £12.4m for the Housing General Fund mainly funded from government grants will enable the continuation of schemes including the delivery of decent homes and assistance to vulnerable householders, disabled facilities grants, other repairs and assistance in the private sector and support for affordable housing.

- £19m Local Transport Plan (LTP) of which £10m is funded from government grants to help deliver improvements to integrated transport systems, including strategic public transport schemes, better traffic management and improvements

to roads in neighbourhoods, and to maintain the transport infrastructure including money for carriageway and footway maintenance and to repair bridges and other structures. An allocation has been bid for and scored in the top priorities to spend £7.4m on the London Road Bridge replacement £5.4m of which will be funded from Department for Transport (DfT) grant. As well as the block programme, a further £1.7m for Connecting Derby will be spent funded mainly from the DfT grant.

- £3.7m for maintenance of the Council's buildings and infrastructure, including roof repairs - Market Hall and Wardwick museum, structural repairs, fire precaution works, window replacement programme, replacement air conditioning units and community centre repairs.

- £7.7m for the extracare programme for the elderly in our Adults Social Care and Housing service.

1.2 Following the Governments Spending Review announcements the Single Capital Pot allocations were reduced and this report outlines the approach taken to produce a balanced capital programme which meets the corporate priorities as well as setting aside funding for planned maintenance of the Council's buildings.

1.3 A bidding process has taken place for new schemes against the Single Capital Pot allocations for the three years 2011/12 – 2013/14 using a scoring mechanism against prescribed criteria.

1.4 This report also outlines the potential financial risks relating to the Council's VAT partial exemption calculation arising from the leisure strategy. Delivery of the capital schemes within the strategy will need to be spread over a number of years to avoid the Council incurring significant VAT costs. Further work is needed to develop the options to alleviate this risk.

RECOMMENDATION

2.1 To note the capital programme for 2011/12 and the indicative capital programme for 2012/13 and 2013/14 as set out in the report. A summary is shown in Appendix 2

2.2 To note the rigorous process of review undertaken on the current 2010/11 – 2012/13 capital programme to generate revenue and capital savings and drive forward those schemes the Council is committed to delivering. Schemes which are not contractually committed and are to be removed from the capital programme will generate savings and are shown in Appendix 3. Schemes that have non ring fenced funding that have not been allocated to specific projects and have been removed from the programme are shown in Appendix 4.

2.3 To note the revenue budget implications and forecast savings totalling £3.8m anticipated by rephasing the priority projects and aborting schemes listed in appendix 3 and 4.

2.4 To note that the schemes identified as part of the review of the programme, as detailed in Appendix 3 and 4, are removed from the capital programme to help generate revenue and capital savings.

2.5 To note the top slicing of the available funding, as detailed in paragraph 5.5, to ensure that there is a sum set aside each year for planned maintenance including community centres.

2.6 To note and agree the schemes which have been previously identified as Corporate Priorities as detailed in paragraph 4.9 and Appendix 5.

2.7 To note the allocation of the balance of funding available to the capital schemes from the Single Capital Pot allocations listed in Table 2 for the full list of bids, detailed in Appendix 6, that have been prioritised by the Strategic Asset Management Group as well as with consultation with Chief Officer Group and Leadership in line with an agreed scoring criteria.

2.8 To note the potential VAT partial exemption implications of the Leisure Strategy.

REASONS FOR RECOMMENDATIONS

3. Reasons for Recommendation

The Capital programme for 2011/12 and the indicative capital programme for 2012/13 and 2013/14 require Cabinet approval to ensure that the programme meets the corporate outcomes as detailed in para 8.3.

In order to support the decision making process a review of the existing programme has been carried out to ensure that the limited funds available can be targeted appropriately to meet the Council's overall aims.

SUPPORTING INFORMATION

4. Development of the capital programme

4.1 Full Council will be recommended to approve the capital programme for 2011/12 and the indicative programme for 2012/13 and 2013/14 at its budget setting meeting on 2 March 2011. This report proposes the capital programme to be recommended to Council. Reports have been taken to the Scrutiny Commissions as part of the consultation process for new schemes wholly funded from resources specific to those services as well as from proposed single pot allocations arising from the bidding process.

4.2 In March 2010, Council approved a £392.4m capital programme for the period from 2010 to 2013 with 2011/12 and 2012/13 as indicative allocations only. This indicatively allocated most of the corporate resources available in order to meet significant investment needs for service improvement. It included the Council's accommodation strategy, continue implementing the Public Realm Strategy and address the backlog of repairs and maintenance to Council buildings.

4.3 Council Cabinet on 27 July 2010 approved the Revenue and Capital Strategy for 2011/12 to 2014/15. The strategy outlined the need for funded service proposals and investment priorities to be reviewed by the Strategic Asset Management Group to ensure alignment of priorities with the Corporate Asset Management Plan, Council Priorities, and Transformation Programme and address any dependencies or links between potential schemes. The strategy also identified the need to review the funding position and capital funded posts.

4.4 This year the capital programme has been developed using the following methodology:

- Assessing the current programme to include all schemes that are contractually committed which will continue into 2011/12. These schemes have been automatically included in the 2011/12 - 2013/14 programme.
- Identifying schemes which are not contractually committed but have identified funding for them. These schemes have formed part of a scrutiny process at Chief Officer Group to determine which schemes will go ahead and which will be aborted
- Identifying unallocated funding streams which have not been allocated to schemes and have unringfenced funding available. These schemes have also been part of the COG scrutiny process to identify funding that may be either saved or made available to fund other schemes
- Rephasing of the Councils priority projects
- Submission of departmental bids to bid against the Single Capital Pot allocations from the DCLG Criteria and scoring used to score the bids in the prioritisation process can be found at Appendix x.
- Allocation of a percentage of the Single Capital for Education and Transport as well as a top slice given for planned maintenance (including community centres)
- Scrutiny of capital funded posts and the implications of loss of any grant funding attached to these posts.

4.5 The original programme for 2010/11 to 2012/13 has been closely scrutinised to identify schemes that will automatically continue as they are contractually committed and have identified funding to enable them to proceed. These schemes total £99m for the remaining indicative programme 2011/12 and 2012/13 and are detailed in Appendix 2.

4.6 Schemes not contractually committed - The original programme was scrutinised to identify which schemes weren't contractually committed but had identified funding ring fenced for them. These schemes were subject to close scrutiny by Chief Officer Group and it was proposed to exclude some of the schemes. The remaining schemes will be rephased to 2011/12 and the total amount remaining is shown in Table 1. A breakdown of the schemes to exclude is shown in Appendix 3. It should be noted that as a result of this process it has enabled revenue savings due to the reduction in further borrowing which will aid the revenue budget to help prevent compulsory redundancies. A summary of anticipated revenue savings is shown in Table 4.

4.7 Funding streams not contractually committed - The original programme was further scrutinised to identify any funding streams which had not been allocated. These schemes were again scrutinised by the Chief Officer Group and it was proposed to exclude some of the programme streams from 2011/12 – 2013/14 capital programme. The remaining totals have been rephased and are shown in Table 1. A breakdown of the schemes to be excluded is shown at Appendix 4. Further revenue savings have been created due to a reduction in borrowing to pay for these projects. A summary of these savings can be found in Table 4.

4.8 In addition to anticipated revenue savings through the reduction in borrowing the exclusion of some of these schemes will enable a further balance of capital funding to be rolled into an unallocated pot or to be made available as a spend to gain funding source for future initiatives to be bid for. This is due to some of the schemes being funded from other non ring fenced funding streams.

4.9 The Council also has some priority corporate projects which are detailed in Appendix 5. These projects are predominantly funded from prudential borrowing and capital receipts. As part of the overall capital programme review process it has been necessary to rephase some of these major projects this in turn also gives rise to some one off revenue savings by delaying the borrowing requirements to future years. The anticipated revenue savings from doing this are shown in Table 4.

4.10 Table 1 Show how the final capital programme has been developed using the methodology described in para 4.4.

Table 1 Summary of capital programme totals by type of review

Type of review	**Appendix**	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**
Contractually committed	2	56,122	28,176	14,399
Not contractually committed schemes but ring fenced funding	2	13,239	11,971	2,766
Non ring fenced funding streams with no schemes developed	2	513	5	20
Priority projects	2 & 5	40,048	22,772	51,003
New bids	6	8,995	9,467	9,450
Top slice for planned maintenance including community centres	2	1,299	1,211	1,211
Total programme	2	121,441	75,809	80,295
Total remaining unallocated funding	2	1,225	2,207	1,446

5. Funding

5.1 The Government's Comprehensive Spending Review announced in December, outlined significant cuts and changes to capital funding for local authorities. As a result it has been necessary to change the way the capital programme has been developed for 2011/12 to 2013/14.

5.2 In the past the major service blocks (Education, Transport and Health and Housing) have been allocated Government funding through the Single Capital Pot and the Council has allowed them to keep this allocation for use on their service blocks. The single pot allocations totalling £12.1m for 2011/12 have been pooled and Education and Transport have been allocated a percentage of this pot (amounting to £3m for highways and integrated transport per year and £5.25m for schools in 2011/12 (including £2m for urgent works required at Lees brook) reducing to £4.25m per year for 2012/13 and 2013/14).

5.3 Housing have retained the Disabled Facilities Grant (DFG) funding of £700k as well as £9.2m ring fenced Major Repairs Allowance (MRA) funding for the Housing Revenue Account which is not included in the Single Pot.

5.4 The rest of the Single Pot allocation has been made available for a council wide bidding process which has been scored and will form part of the consultation process to agree the schemes to be taken forward as part of the 2011/12 – 2013/14 capital programme. Indicative allocations for 2012/13 and 2013/14 of £12.1m have been used for the single pot in order that a 3 year programme can be developed. The bids have been assessed by the Strategic Asset Management Group and scored in line with agreed criteria. The initial bids have been revised following the scoring assessment to ensure that they are more realistically aligned to the funding available. Details of the bids with the highest score which are within the level of funding available are shown in Appendix 6. These schemes are listed in order from the highest scoring schemes at the top and are those considered to be of the highest priority.

5.5 As well as allocating the Single Capital Pot to bids received, the total each year has been top sliced for planned maintenance. Table 2 summaries the total allocations per year. A detailed breakdown is shown at Appendix 6. The overall balance on the capital programme for the three years 2011/12 – 2013/14 indicates that a total of £30.8m is available to allocate to new schemes, after top slicing planned maintenance and offsetting a shortfall in capital receipts.

Table 2 Single Capital Pot Allocations

	2011/12	**2012/13**	**2013/14**	**Total**
	£'000	£'000	£'000	£'000
Single Pot allocations	12,098	12,107	12,107	36,312
10% top slice For maintenance	(1,260)	(1,211)	(1,211)	(3,632)
Total to allocate to New Bids	**10,838**	**10,896**	**10,896**	**32,630**
Less forecasted capital receipts shortfall	(1,843)	0	0	(1,843)
Available for Bids	**8,995**	**10,896**	**10,896**	**30,787**
Allocated to bids	(8,995)	(9,467)	(9,450)	(27,912)
Unallocated funding	**0**	**1,429**	**1,446**	**2,875**

Table 2 also shows the identified shortfall in capital receipts required to fund the 2011/12 capital programme, this has therefore been deducted from the available resources.

5.6 A summary of the overall capital programme including schemes that are bidding for funding is shown in Appendix 2 together with the top slice element of funding for planned maintenance.

5.7 Due to current market conditions the capital receipts forecast indicates a shortfall of £1.8m. This has been deducted from the available funding to ensure that the overall capital programme is still funded. In view of the limited funding available to fund Corporate priorities it is hoped that through the area reviews currently taking place, properties no longer required will be identified and are therefore available for disposal which will help generate more receipts to fund the capital programme.

6. Consideration in framing the 2011/12 – 2013/14 Capital Programme

6.1 **Schools** – The non ring fenced grant received for schools is £7.5m per year. The current proposal is that £5.25m for 2011/12 will be allocated to school schemes including an allocation of £2m for Lees Brook. In 2012/13 and 2013/14 an allocation for schools condition work totals £4.25m for each year. It should be noted that a separate ring fenced funding stream of devolved capital funding for schools has been reduced significantly for 2011/12 to £790K (in 2010/11 this was £4m). The overall impact will be a significant reduction in the amount of capital works at schools which could lead to school closures. In addition there have also been recent budget pressures on school capital budgets relating to the maintenance of school kitchens for which funding needs to be identified. There is an amount of £1.287m that will be rephased to 2011/12 to be used on the schools meals production facility once a decision has been made on the scheme required. The potential closure of schools due to reduced maintenance is a significant risk for the Council and serious consideration should be given to increasing this allocation should any further funding be identified as part of this review.

It should be noted that part of the balance to be rolled back as unallocated was some funding from the CYP non ring fenced modernisation pot. This has historically been held as an emergency fund should a school boiler fail or fire precaution works be required. Taking away this remaining balance will mean that should an emergency happen the department will require an allocation of funds urgently from the unallocated pot.

6.2 **Highways** – The non ring fenced grant received for highways and the Integrated Transport plan is £4m per year. The current proposal is that £3m per year will be allocated to Highways and the Integrated Transport Plan. This reduction allows the non ring fenced funding to be used to fund other capital schemes that are considered as a corporate priority. The reduction will mainly impact on the Integrated Transport Plan schemes.

6.3 **Disabled Facilities Grant (DFG)** – The original bid for DFG was for £1m per year from the single capital pot. This amount was to top up the specific funding for DFG of £700k per year and £200k of Right to Buy receipts. The current proposal is that DFG will only retain the £900k per year and receive a £500k top up from the single capital pot £315k and capital receipts £185k. This is below the current underlying level of demand of £1.9m per year recommended some time ago by Community Commission. This could lead to backlogs, extended waiting lists and moratoriums and ultimately to ombudsman's complaints and to judicial review as the Council would not be complying with the requirements of the Local Government and Housing Act 1989.

6.4 **London Road Bridge Replacement** – The current proposal is to contribute £2m from the single capital pot towards the grant from the Department of Transport (DfT) which represent 25% of the overall cost. Network Rail have agreed to design the scheme for the council as payment in kind which means that this council contribution can be phased into future years indicatively 2012/13.

6.5 **Waste Disposal Plant** – The current capital programme has an amount of £25m set aside in 2012/13 for a replacement waste disposal plant. This scheme is being funded through prudential borrowing. Indications are that the scheme will be delayed to future years so the borrowing requirement will be rephased accordingly.

6.6 **Leisure Strategy** – The Leisure Strategy costs are currently included in the overall capital programme (2011/12 £10.6m and £25m for 2012/13) mainly funded through prudential borrowing. This scheme is also likely to slip therefore the requirement to take up the borrowing will be delayed.

6.7 **Accommodation Strategy** – The Accommodation Strategy costs have now been rephased into the 2011/12 to 2013/14 capital programme and are mainly funded from prudential borrowing. This means further revenue savings from a later take up the borrowing requirement shown in Table 4.

7. Funded the Proposed Programme

7.1 The capital programme will be financed mainly from the following resources:

- Residual 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. This funding stream has now been removed and government funding is now in the form of capital grants. The SCE Rs shown in the programme are those that have been received in previous years and rephased to 2011/12 – 2013/14.
- Supported Capital Expenditure (Capital) (SCE-C) grants from Government for the major service blocks of CYP, Transport and Health which are now all non ring fenced funding streams.
- Earmarked proceeds of Section 106 receipts after consultation through the commissions, cabinet and ward councilors.
- Other external resources and grants in so far as these are earmarked for use by that service, for example specific European and lottery funds.
- Capital receipts available, earmarked for specific service programmes and those which have been 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
- Corporate prudential borrowing funded through the treasury management budget.

7.2 Specific points to note in relation to service funded programmes resources are:

- The service capital receipts factored into the funded programme all of which has already been received in previous years and are currently held in earmarked capital receipts reserves.
- At this stage no indicative New Growth Point grant funding has been included for 2011/12 or 2012/13.
- The New Deal for Schools Modernisation Fund, Adult Social Services Social Care and Mental Health and the Local Transport Plan funding allocations are classed as 'single capital pot' allocations which are non ring fenced. For future years this funding has been amalgamated to enable all services to bid for funding against a prescribed criteria.
- Departmental programmes consist of mainly specific capital grants and external contributions which have been awarded or levered in for specific projects and block programmes such as the transport programme. Departmental priorities are used to allocate the funding to specific schemes according to the funder's guidance.

7.3 Within the total resources available, it has been assumed at this stage that the indicative level of corporate unsupported borrowing set in the 2009/10 budget process remains the same for 2010/11 and 2011/12. No new corporate unsupported borrowing has been included in the revenue budget proposed or the resources estimate included in this report for 2012/13 and 2013/14.

7.4 A balance of unallocated funding totaling £2.875m remains from the single capital pot allocations together with other non ring fenced funding identified as part of the original scheme review process. The following should be considered when assessing this unallocated balance:

- Setting aside a balance for contingency purposes for emergency works e.g. schools boiler breakdowns or unanticipated overspends or other emerging corporate priorities in year.

- Setting aside a fund for departmental bids for spend to gain schemes.

- Increasing the planned maintenance top slice to a level that is more realistic when taking into account the councils current backlog maintenance amounting to £111m and still ensuring that this would then be manageable and deliverable with the resources available to the Council.

- Switching those schemes that are currently using corporate unsupported borrowing to grant to make further revenue savings.

- Consideration of project bids which did not meet the scoring criteria threshold of affordability.

8. Proposed Capital Programme 2011/12 to 2013/14

8.1 Table 3 shows the overall summary capital programme for 2011/12 to 2013/14 together with the associated funding.

Table 3 - Capital Programme Summary 2010/11 to 2012/13

2010/11 £'000	Costs and Funding	Cost 2011/12 £'000	2012/13 £'000	2013/14 £'000	Total cost £'000
	Scheme Costs				
23,498	Children & Young People	32,053	26,468	4,250	62,771
31,976	Adult Health & Housing	29,664	13,918	10,985	54,567
713	Resources	-	-	-	-
26,660	Neighbourhoods	15,649	22,731	62,300	100,680
30,531	Chief Executive's Office	42,850	10,485	1,314	54,649
-	Corp unallocated	1,225	2,207	1,446	4,878
113,378	**Total Costs**	**121,441**	**75,809**	**80,295**	**277,545**
	Funding				
3,493	Supported Capital Expenditure - SCE (R)	9,187	1,961	-	11,148
28,986	Supported Capital Expenditure - SCE (C)	18,615	14,305	12,737	45,657
	Unsupported Borrowing				-
18,446	Corporate Programme	37,803	20,828	51,003	109,634
2,783	Service Financed Unsupported Borrowing	1,536	7,411	-	8,947
1,940	Service Financed Spend to Save	2,758	46	-	2,804
	External Funding Secured				-
20,449	Government Grant	20,469	14,959	6,710	42,138
3,234	External Contributions	442	-	-	442
-	Lottery	-	-	-	-
	External Funding Bids				
-	Government Grant	-	-	-	-
-	External Contributions	-	-	-	-
11,184	Capital Receipts	10,199	4,545	400	15,144
2,150	S106	1,686	301	300	2,287
3,677	Revenue Reserves	8,791	2,929	765	12,485
5,901	Service Revenue Reserves	386	244	-	630
2,032	Capital Reserves	289	-	-	289
9,103	Major Repairs Allowance - MRA (Housing)	9,280	8,280	8,380	25,940
113,378	**Total Funding**	**121,441**	**75,809**	**80,295**	**277,545**

8.2 In line with the reorganisation the Neighbourhoods directorate has been added along with adult health and housing directorate.

8.3 The capital programme is consistent with the Council's corporate outcomes for 2011-14. These are:

A thriving sustainable economy (TSE)

Achieving learning potential (ALP)

Good physical and mental health (GPMH)

Being safe and feeling safe (BSFS)

A strong community (SC)

An active and fulfilling cultural life (AFCL)

Good quality services that meet local needs (GQSLN)

A skilled and motivated workforce (SMW)

8.4 Appendix 2 shows which corporate priorities each scheme aims to meet.

8.5 In addition to the corporate prudential borrowing programme, allocations of additional prudential borrowing may be made available 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 where these exceed the financing costs. Other future schemes may be self-funding through rationalising property holdings and reinvesting the receipt into refurbishing retained property or new developments.

8.6 Appendix 7 sets out information details of the self-financing prudential borrowing that has been approved for future years. This is in addition to those in progress in 2010/11. 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 therefore demonstrates that the Council has been active in using its powers under the Local Government Act 2003.

8.7 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. 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. The Corporate Asset Management Group is considering property solutions and opportunities as part of the property review programme.

8.8 Subsequent reports will be brought during the course of the year where block allocations have not been fully distributed to schemes. The Public Realm Board have delegated authority to agree other individual schemes or projects with a cost below £100,000, where these are fully funded from within existing approved allocations or from external sources such as section 106 funding, and do not commit the Council to ongoing additional net revenue costs in future years.

8.9 The programme for 2012/13 and 2013/14 remains indicative, being set for planning purposes other than where a forward commitment is specifically required.

9. Revenue Implications

9.1 The cost of the unsupported borrowing in the revenue budget is dependant on the profiled spends each financial year and the asset life of each capital scheme being funded. The revenue costs of the proposed capital programme have been included in the revenue budget on this agenda. Any changes to the recommendations could therefore have a revenue budget impact. Due to a review of schemes in the original 2010/11 -2012/13 and the rephasing of the Councils priority schemes it has meant that a number of revenue savings are forecast. Table 4 shows the anticipated revenue savings. These savings are currently being confirmed.

Table 4 Revenue savings from reviewing the existing programme

Type of Review	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**Total £'000**
Not contractually committed but ring fenced funding Appendix 3	97	115	118	330
Non ring fenced funding streams with no schemes developed Appendix 4	126	126	126	378
Rephased priority schemes Appendix 5	414	232	2,466	3,112
Total	**637**	**473**	**2,710**	**3,820**

9. 2 It is proposed to use the savings from reviewing the existing programme to support the 2011-2014 revenue budget.

9.3 Approval of the prudential borrowing indicators and annual Treasury Management report will also be considered at this cabinet.

9.4 A revenue budget provision to cover lifecycle and on-going maintenance costs should be provided from departmental revenue budgets for all schemes in the capital programme, where relevant. The availability of such revenue budgets for capital schemes will need to be confirmed before capital schemes can commence.

10. Value Added Tax - VAT Partial Exemption

10.1 The Capital Budget Report that went to Cabinet last February included £50m for construction costs, spread over the years 2010/11 to 2013/14 inclusive. It warned about the possibility of exceeding the 5% partial exemption limit and a potential VAT cost of £7.5m while the leisure strategy is being delivered. The rephased expenditure included in the 2011/12 to 2013/14 capital programme still gives cause for concern as the Council will still go over the limit in 2012/13 and 2013/14.

10.2 Table 5 shows the position; without the leisure strategy the Council will be within its limit each year and on a downward trend. If the leisure strategy goes ahead in line with the rephasing included in the programme the limit will be exceeded in 2012/13 and 2013/14 and incur a VAT cost of about £4.25m (£1.894m plus £2.333m). About £2.4m of this will fall directly on the leisure strategy and the remainder will fall on activities that exempt their charges from VAT such as the Crematorium, Derby Live and the Guildhall Market.

Table 5 Partial exemption limits with and without the leisure strategy

VAT on Exempt activities	**2011/12**	**2012/13**	**2013/14**
	£'000	£'000	£'000
Revenue Expenditure	803	778	753
Capital Expenditure excluding Leisure Centre Strategy	316	276	20
Total Capital and Revenue	1,119	1,054	773
Exempt VAT as a % of Total VAT	**3.05%**	**3.19%**	**2.23%**
Leisure Centre Strategy	300	840	1,560
Total Capital and Revenue including Leisure Centre Strategy	1,419	1,894	2,333
Exempt VAT as a % of Total VAT	**3.77%**	**5.28%**	**5.84%**

10. 3 If the construction costs were spread over a longer period the VAT problem would be eased somewhat, or not even a problem at all if it could be spread far enough. Table 6 gives an indication of what would presently be needed to get within our 5% limit.

Table 6 Possible rephasing to avoid partial exemption

	Current Program £'m	Required Re-phasing £'m
2011/12	5.0	5.0
2012/13	14.0	12.0
2013/14	26.0	20.0
2014/15	4.0	12.0

10.4 There is a significant risk in 2013/14 that would affect the figures in both tables. The programme includes £25m for a new waste treatment plant that is phased to be spent in 2013/14 in order to dilute the peak expenditure on the Leisure Strategy. If it turned out that the two didn't coincide, the VAT percentage in 2013/14 would rise to 6.68% and therefore the spread of the construction costs would have to be over more years than would otherwise be the case.

10.5 Further work is needed to develop the options for managing the VAT risk and the impact on the proposed capital programme. This will be considered as part of the detailed planning for the Leisure Strategy and confirmed in a future Cabinet report.

11. Next steps

11.1 The full programme will be considered for approval by Council on 2 March 2011.

11.2 Subsequent to these decisions …

- For block programmes, approval will be needed to the content of programmes, if this is not set out in the initial programme. This will include the Local Transport Plan, detail of which will be reported to Cabinet in March 2011
- Scheme commencements need Cabinet approval if schemes are over £100,000 before individual schemes can proceed, as set out under the financial procedure rules. For schemes which need to commence early in the year, scheme commencement approval can be given at the same point at which funding is committed, to avoid undue delay. Monitoring of projects will be reported to Cabinet throughout the year and, in the case of high risk schemes, through the quarterly monitoring report.
- To make a decision as to the allocation of the unallocated balance.
- The updated capital receipts position will be monitored and reported quarterly in the monitoring report.

For more information contact:	Nicola Goodacre, Group Accountant Capital 01332 258461 nicola.goodacre@derby.gov.uk
Background papers:	None
List of appendices:	Appendix 1 - Implications Appendix 2 - Capital Programme Summary 2011/12 – 2013/14 Appendix 3 - List of excluded schemes not contractually committed with funding allocated Appendix 4 - List of excluded schemes with that are non ring fenced funding streams Appendix 5 - List of priority schemes Appendix 6 - List of new capital bids Appendix 7 - Summary of unsupported borrowing Appendix 8 - Scoring Criteria

IMPLICATIONS

Financial

1. As set out in the report. Revenue implications of capital schemes will need to be considered as part of the options appraisal undertaken before each scheme commences, and will be built into future revenue budgets as appropriate. Funding from unsupported borrowing and revenue in 2011/12 and 2012/13 is subject to the affordability of these funding pressures within the revenue budget.

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.