APPENDIX I
Agenda Item No. 12

CAPITAL PROGRAMMES

Head of Finance

(1.) Purpose

1.1 This report deals with the whole of the Council's capital activity covering both income and expenditure. It presents a revised capital programme for adoption, reviews the flow of funds anticipated to be available to fund that programme and raises some issues of principle on the allocation of funds within the proposed programme.

1.2 The report deals with a Policy Framework matter and will be referred to the Resources and Corporate Performance scrutiny committee for review prior to Cabinet's recommendations being considered by Council.

(2.) Cabinet are Recommended to

2.1 Note the expected Resource availability and the degree of confidence (S6 & App A).

2.2 Note the position on Housing Enabling and consider the allocation in principle of a further £1.5million for shopping list schemes (9.8).

2.3 Note the ability to borrow for capital as an option but agree that this should only be considered for self financing projects (8.4).

2.4 In view of the Cabinet decision on 3rd August agree to the inclusion of £16 million in the programme in 2010 as funding for new Offices (9.12).

2.5 Recognise the need for a contingency sum for the Kingsbury development and agree the inclusion of £100,000 (9.20).

2.6 Consider whether there should be any change to the £1 million pa provision for General Fund shopping list schemes (9.23).

2.7 Note the position on the funding shortfall for the proposed programme (10.2) and the Risk Issues especially around resource availability and allocation (S 11)

In the light of the above Recommend to Council

2.8 The adoption of the revised capital programme for

- 2004/2005 as the revised capital budget
- 2005/2006 as the capital budget
- 2006/07 to 2010/11 as the basis for firm capital planning with a proviso that entering into any new commitment is subject to full review of resource availability.

(3.) Executive Summary

(4.) Background

3.1 On 10th December 2003 the Council adopted a strategic capital programme covering the period to 2009 / 2010. The expenditure items were grouped under the three basic categories of General Fund, Housing Enabling and Housing Improvements.

3.2 The expenditure programmes totalled some £105 million with expected resources available projected at £110 million. Within both elements there were varying degrees of certainty attached to the component sums.

3.3 In June 2004 the Cabinet received a report reviewing capital activity for the year to 31 st March 2004. The figures from that report were reproduced in the March financial digest. In the light of the 2003/2004 activity outturn projections for resource availability and expenditure activity have been revised.

3.4 In September 2003 the Council repaid all external debt and achieved debt free status bringing with it considerable gains in terms of available capital receipts that could be used to fund future projects.

3.5 In the period since December 2003 further reports have been made covering the latest Housing Enabling strategy and also covering the requirement to meet the Decent Homes standards for our housing stock.

3.6 For General Fund the developments have been around projects which have benefited from external funding such as the Kingsbury redevelopment, together with considerable activity on progressing the Waterside development and emerging requirements to respond to needs relating to Council Offices and our Industrial and Commercial Property portfolio.

3.7 The growth agenda for the District leading towards a potential doubling of our client base will clearly bring capital requirements as services respond to the changes.

(5.) Revised Capital Programme

4.1 The programme attached as Appendix **C** has been adjusted to take account of activity in 2003/2004. This means changes to allow for the rolling forward of some expenditure that was originally planned for that year and in some cases the reduction in budgeted spending as schemes have been completed. The programme has been extended by one year and now runs until 2010/2011.

4.2 Particular changes have been made to the Housing Enabling section to reflect the sensitive nature of negotiations and difficulties in accurate planning of expenditure as detailed in the report on this matter to Cabinet on 1st June 2004. Although significant funding has been allocated to our Enabling activity delivery of the target 250 units a year is doubtful. Currently our funding allocation is front loaded to address built up pressure but this does mean that there is no allocated Council funding in later years.

4.3 The Housing Improvement section has been condensed for 2004/05 in terms of identified schemes. This reflects the current position on moving from the previous programme to one geared to delivery of Decent Homes. Work has been underway to revise the assessment of our current level of compliance and has generated a revised programme of works for delivery of full compliance. The programme for Housing Improvements is now formulated on the principle of only undertaking works that deliver compliance with decent homes standards which is addressed later in this report.

4.4 The General Fund section has a number of items where revision needs to be considered and these also are dealt with in detail later in this report.

(6.) Resource Availability

6.1 The projections of resources expected to be available over the programme period have also been reviewed and revised in the light of past activity and latest information and extended to include 2010/2011. The table attached as Appendix A shows the latest position. Whilst the total expected to be available is over £116 million there are differing degrees of certainty over the sums making up that figure.

6.2 The differing levels of risk are indicated in Appendix A. Key issues relate to the sales of council houses and disposals of other assets where uncertainty exists over both timing and value.

(7.) Matching Expenditure Plans to Available Resources

6.1 The programme adopted in December 2003 totalled £105 million which was £5 million less than the expected resources arising over the same period. This safety margin reflected the need for caution when planning commitment against sums yet to be received.

6.2 If there were no changes to the expenditure as planned in December then the projections when updated for latest information would now reflect a safety margin of £9 million due to some small reductions in expenditure and mainly as a result of higher proceeds from sales of council houses.

6.3 There have however been further developments on some areas that are becoming clearer in terms of requirements for capital funding which was not previously included in the programme. These are dealt with in detail in the following section.

6.4 In order to respond to these changes and proposals it will be necessary to amend the previously agreed programme. The revised proposals if adopted show that a potential over commitment would exist. This will in some cases mean making choices on funding allocations.

(8.) Borrowing

7.1 The Council achieved debt free status in September 2003 which brought with it significant gains in access to capital funds worth over £20 million to this Council. The timing of repayment of our debt was in part driven by changes to the capital control regime which introduced "Prudential Borrowing".

7.2 The new arrangements give the Council the ability to borrow without restriction provided that we comply with the prudential code. The code puts certain stipulations on financial evaluation and management the main one being the need to demonstrate full affordability when embarking upon borrowing.

7.3 Borrowing is therefore very much back as one means of funding capital projects provided that we can accommodate the revenue consequences. This is likely to be the difficulty as repayment of a loan of £1 million over 20 years currently will cost £85,000 each year.

7.4 Borrowing should therefore be a serious option where we are considering a project that generates income or will make revenue savings sufficient to cover the investment. It should also be a real alternative to acquiring smaller assets such as vehicles where previously we have leased them as this could yield a financial gain.

7.5 It is however important not to ignore the feel good factor of being a debt free authority and this must be balanced against the benefits of securing assets by this route.

(9.) Issues Prompting Revision of the Programme

8.1 The following items have reached the stage where proper planning requires reflection in the capital programme as adopted by Council.

8.2 **Decent Homes** – considerable survey and evaluation work has been undertaken over recent months to establish the level of compliance with the decent homes standards and the nature and cost of works required to deliver compliance by the stipulated date of 2011.

8.3 What is apparent is that the mix of schemes in the previously approved programme was such that only some 60% were of a nature that counts towards delivery of decent homes. Whilst the total sum available from the major repairs allowance to fund expenditure seems to be sufficient to cover the reassessed decent homes needs it can only do so if the works programme content is revised.

8.4 It is therefore recommended that the Housing Improvements programme be changed so that only work scoring for decent homes is undertaken. This means that works such as double glazing will no longer be carried out as they do not score for decent homes.

8.5 Appendix B gives an indication of those items counting towards decent homes and those that do not.

8.6 **Housing Enabling** – the Housing Enabling strategy has a target delivery of 250 homes a year. The programme in Appendix C provides for resource allocation to schemes largely based upon receipts from sales of houses although expenditure has been front loaded to try and address built up need from recent years.

8.7 This means that in later years of the programme the Council is not in a position to inject funding. The planned expenditure is based upon the total funds allocated in the December 2003 programme but exceeds that sum by £1.5 million, shown as "Shopping List unfunded".

8.8 The draft programme includes the £1.5 million as potential expenditure which contributes to the over commitment against available resources. Members may decide not to include that sum and the programme will be contained accordingly.

8.9 **Waterside** - the principles of the Waterside development agreed at Council in July recognised the need to make provision for the Council to fund certain matters as the development proposals progressed.

8.10 The matters concerned are underwriting the initial expenditure on design of the new civic facility and the possible expenditure on acquisition of property within the development area should this be beneficial to progressing the project. Both matters would occur in the period prior to the agreement becoming unconditional and any expenditure would be reimbursed when that point is reached.

8.11 **Offices** – the need to vacate the Exchange Street offices as the Waterside development gets underway has prompted consideration of the wider offices position. A report considered by Cabinet on 3rd August resulted in an offices strategy being proposed for the short and long term provision.

8.12 Funding in the current programme is limited to £800,000 for dilapidations at Friars Square and £750,000 for Exchange Street relocation. Whilst the combined £1.55 million may be adequate to cover capital costs associated with relocation from Exchange Street on a short term basis there is a need to make provision in capital plans for a long term office solution. At this point in time action on this matter is unlikely to occur for some years and a contingency sum of £16 million is proposed for planning purposes from 2010.

8.13 **Commercial Property Portfolio Investment** – the adopted programme contained funding of £5 million allocated over the period to allow for activity in this area. So far £500,000 has been committed for buying in a lease on one of our commercial properties.

8.14 There is a potential requirement for considerable investment in some of our property where failure to react can create a significant revenue problem from loss of rent income. The sums involved could however be considerably in excess of the balance unallocated.

8.15 Investment in an existing property whilst seeking to preserve rent income could on the other hand be felt to be compromising our ability to play a more active part in wider economic development allied to the district's growth.

8.16 The draft programme leaves £4.5 million as the provision under this heading as firm proposals for works have not yet been established.

8.17 The evaluation of the interaction between commercial property related capital investment and revenue consequences is critical to our future financial planning.

8.18 **Local Delivery Vehicle** – although this will be an arms length organisation there will be capacity for complimentary working with the LDV and partner organisations. Opportunities will be sought for LDV activity that furthers the Council's economic development aims within the growth agenda. There may be some call for an injection of funding to pump prime LDV activity from partner bodies. There may even be a case for asset transfer into the LDV if that furthers our aims and is financially viable.

8.19 At this time these needs are undefined but further reports on options will be forthcoming and maintaining a funding ability within the programme is sensible to allow for such needs. This would be covered within the provision outlined in 9.21 below.

8.20 **Kingsbury Development** – this scheme is well advanced and nearing completion. Funding of £1.7 million is being provided from government funds. There is however a need to provide for a contingency sum of up to £100,000 to ensure full completion of the project. This reflects difficulties which have emerged as works progressed relating to the thickness of concrete covering the underground toilets and the inadequate level of cover over some basement areas that extend out under the paving works. The situation is being actively monitored with a view to contain costs where ever possible.

8.21 **General Fund Shopping List Schemes** – the adopted programme included a sum of £1million each year to cater for new general fund schemes coming forward. Such schemes would be drawn from a shopping list put together to reflect needs and opportunities drawn from service planning in particular any associated with responding to the growth agenda. The previous shopping list being in need of revision as it has not been updated for some years.

8.22 So far the only firm allocation relates to the capital costs associated with the introduction of kerbside glass recycling estimated to be in the region of £400,000. Other items for consideration are being identified as service plans are finalised and will be the subject of a report later in the year.

8.23 It would be very restrictive to take this provision out of the programme as it is the only provision for responding to growth pressures. However the need to accommodate other matters outlined above means that the annual provision could be considered for reduction. On the other hand reducing the figure is not felt to be advisable if we are to have any capacity to respond to growth pressures, such as the LDV operation outlined above.

(10.) Overall Position on Funding verses Expenditure Plans

9.1 At the foot of the summary section of the programme in Appendix C is shown a summary level projection for funding availability against planned expenditure over the period 2004/2005 to 2010/11.

9.2 The table shows that the expenditure now planned and reflected in the revised programme in Appendix A at £122 million is some £5.5 million higher than the expected funding availability.

9.3 Clearly a major factor is the £16million for new offices in the final year of the programme.

9.4 Plotting the cash flows over the period reflects our cash rich starting point and we are not in danger of encountering cash flow problems in the short term. Decisions on medium and long term commitments have yet to be made and can be dealt with in the context of the latest position on funding when that point is reached.

(11) Risk Issues

10.1 The level and range of capital activity envisaged is such that the opportunity for change is extensive. Creating a base for forward planning is essential as will be ongoing monitoring and review. Risks exist around both income and expenditure.

10.2 Income projections are based upon latest best information. They are however subject to a range of influences many of which are outside our direct control. Asset disposal values are subject to change arising from market fluctuations. The values used are based upon current professional assessments for larger disposals and historic levels for council house sales. The approach on council house sales could be considered cautious in the light of the housing market's recent movements.

10.3 The number of sales of houses projected is based upon that prevailing over recent years and is also subject to fluctuations.

10.4 Assessments of expenditure requirements will be refined as the point of formal commitment is reached. There will be potential for change as final specification and tendering is actioned.

10.5 In the cases of larger projects the risk assessment procedures have now been extended to include full risk assessment and management review. This has already proved to be an effective mechanism having been done for Waterside and the Lodge project.

10.6 There is a wider strategic risk around the projected mis-match of funding available and expenditure aspirations. Although clearly a risk the identification of this issue is a benefit of looking forward over a longer time frame. By managing resources on a long term basis decisions about relative importance of projects can be dealt with on a constructive basis. It may be a case of choosing not to action a project in the earlier years if that is the only way a higher priority project can be progressed in later years.

10.7 Throughout the programme's life regular monitoring and updating will be essential to ensure optimum scheme delivery and to prevent any commitment above the resources guaranteed.

(12) Options Considered

12.1 The Council is required to properly plan its activities, determining a capital programme is part of proper financial management. The timescale for planning is for decision but by its very nature capital activity requires planning over several years.

12.2 Within the proposed programme choices exits for alternative allocation of resources.

The recommendations seek to maintain consistency between the previously determined programme and delivery of the Council's Key Aims having taken account of changing circumstances.

11.3 The report indicates a potential shortfall on resource availability. One option would be to avoid any capital commitment until absolute certainty of funding exists for all items this is not proposed as it would have a detrimental impact upon service delivery and the Council's operation. This does require regular monitoring and review and careful consideration before each new commitment is entered into.

(13.) Reasons for Recommendation

13.1 The council must set a capital budget for proper management of its affairs. The proposed programme of work is intended to support the balanced delivery of the Key Aims across all services. The reasons for changes to the previous programme where proposed are dealt with in the body of the report.

(14.) Resource Implications

14.1 These are dealt with within the body of the report.

(15.) Response to Key Aims and Outcomes

15.1 The Council maintains an integrated strategic capital programme which seeks to allocate current and future resources in a manner that achieves optimum use for the delivery of the Key Aims and Outcomes.

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Background Documents: Capital Accounts, Guidance, Working Papers, Other Cabinet , Committee and Council reports.

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APPENDIX A

Capital Funding Projected Availability and Degree of Confidence

Nature of Funding	£'s	Confidence Level
Money held at start of 2004 year	30,000,000	**Certain**
Transfers from Revenue	1,400,000	**Certain** Current policy to make this transfer, there is an option to convert this to loan repayments which could cover £2.35m once off borrowing.
Receipts from House Sales and rebate on pooling of receipts	39,676,000	**Highly Confident** Dependent upon selling 200 houses each year Rebate dependent upon government maintaining policy until 2006/07
Major Repairs Allowance – revenue transfer from housing revenue account	34,900,000	**Highly Confident** Can only be used for Housing Improvements , governed by housing subsidy system
Government Funding for capital project - Kingsbury	1,250,000	**Certain** Balance of agreed funding
Industrial / Commercial land disposals	2,068,000	**Good Expectation** Uncertainty over timing but expected in 2004/05
Other Land Asset Disposals	7,195,000	**Some Uncertainty** Doubt over exact values and timing , could be less than indicated
TOTAL	**£116,489,000**	

APPENDIX B

Comparison between proposed Decent Homes delivery programme and previous programme content

Our new programmes will focus on:-
Provision of new kitchens with decent layouts and adequate space and work surfaces for food preparation
Provision of new bathrooms in appropriate location (normally first floor)
New Central heating boilers (condensing boilers) and heating distribution systems
New roofing
Structural repairs to outside walls
Chimney repairs/rebuild
Front Door renewals
Electrical rewiring
Ad hoc replacement of individual windows where properties have more than six defective windows
Renewal of rainwater goods

Issues that will no longer feature in the works programme :-
The upvc double glazing programmes (We have been spending up to £1.8 million each year on new double glazing and have been working towards a target of all of our properties having double glazing).
Car Parking Improvement programme (We have been completing 3 or 4 schemes each year)
Community Safety Fund (we have set up a community fund for tenant led schemes and this has involved £100,000 of expenditure each year)
Environmental Improvements (we have been carrying out environmental improvements on our estates and spending £100,000 each year on small schemes)
Improvement schemes at Vale House, Walton Court Centre and sheltered housing schemes (we will revert to carrying out essential repairs only as funding will not be available for improvement schemes)
Door entry systems not yet completed on flats
One- off improvements such as building of stores at sheltered schemes for disabled scooters, improved lighting schemes and CCTV.