



AGENDA ITEM:

OVERVIEW & SCRUTINY BOARD

DATE: 29 July 2008

Capital Programme Review

PAUL SLOCOMBE: DIRECTOR OF RESOURCES

PURPOSE OF THE REPORT

1. To present to Overview & Scrutiny Board the latest position in respect of the Capital Programme.

BACKGROUND & EXTERNAL CONSULTATION

2. The Capital Programme considers the estimated resources available to the Council together with the Council's commitments against priorities on a rolling basis over a three-year planning cycle. The programme is reviewed and monitored on a quarterly basis through the budget clinic process, annually through the prudential indicators review and periodically when additional capital resources become available. A fundamental review is undertaken approximately every three years.
3. There are a number of key elements which must be considered as part of the review of the capital programme:-
 - a. the impact of current commitments including appropriate provisions to support and maintain existing assets ;
 - b. the extent to which additional resources are expected to be available to the Council, including revenue funded borrowing (prudential guidance limits), projected capital receipts from asset sales, and expected levels of external funding; and
 - c. the extent to which resources are available to support new capital schemes

Current commitments

4. The existing capital programme has recently been reviewed to ensure appropriate provision has been made for all existing schemes. There are three key changes from the existing programme.
- Building Schools for the Future – Following the receipt of bids for the provision of Information Technology infrastructure, Building and Design costs together with a review of the available funding package from Central Government a deficit in funding of £1.583 million has been identified;
 - Provision has been made to deliver identified repairs and maintenance in accordance with the Building Investment plan. Additional revenue costs have been built into the medium term financial plan to meet estimated capital investment costs of £30 million over the next 10 years; and
 - A recent submission to the Heritage Lottery Fund has been made towards the redevelopment of Stewarts Park. A provisional offer of £4,617,000 grant funding has been made to the Council on the basis of a contribution from within the Councils capital programme of £1,546,000. Allowance has been made within the existing capital programme, subject to approval by Executive.
5. Provisions have been made, in accordance with Council priorities to ensure targeted compliance with the Disability Discrimination Act (DDA), and to ensure the Council's assets and Information Technology Infrastructure are maintained, updated and `fit for purpose`. The following table summarises the specific provisions made: -

	2008/2009 £`000s	2009/2010 £`000s	2010/2011 £`000s	2011/2012 £`000s
DDA Compliance	250	250	250	250
IT Refresh	400	400	400	400
Security of Buildings	50	50	50	50
Urgent Works	250	250	250	250
Members Small Schemes	60	60	60	60
Disabled Facilities Grant	302	302	302	302
Leisure Equipment	100	100	100	100
	1,412	1,412	1,412	1,412

6. In addition general Capital provisions have been made to meet potential legislative costs and contractual obligations. A key element of which relates to an assessment of potential equal pay liabilities alongside agreed capitalisation directives.

Affordable Capital Expenditure

7. The amount of capital resources available to the Council is determined by: _
- the level of affordable borrowing
 - capital receipts;
 - external funding available to the Council; and
 - direct revenue contributions to Capital
8. The prudential code `governs` the way in which the Council plans its capital programme over the medium to long-term horizon. All borrowing has to be financed from revenue, including annual loan repayments and interest on outstanding balances. The following additional funding to support the revenue impact of the capital programme has been included in the medium term financial: - £700,000 in 2008/2009, £1,000,000 in 2009/2010 and £1,300,000 in 2010/2011.
9. The Council's capital programme is dependent on the capital receipts it receives from the sale of surplus land and assets. The availability of capital receipts is reviewed regularly to reflect market conditions. An assessment of the level of capital receipts has been undertaken to take into account, where appropriate, current market conditions.
10. The latest summary position of the existing approved capital programme is as shown in the table below. Detail by service is shown at **Appendix A**. Gross expenditure of the programme over this period is £294.780 million.

	2007/2008 £`000s	2008/2009 £`000s	2009/2010 £`000s	2010/2011 £`000s	2011/2012 £`000s
Gross Expenditure	34,171	71,805	69,006	71,639	48,158
Income-					
Government Grants	-20,008	-45,169	-54,854	-54,406	-31,972
Borrowing	-4,182	-10,359	-12,043	-13,292	-11,629
Capital Receipts	-829	-2,774	-7,856	-600	0
Partner Contributions	-3,034	-784	-80	0	0
Revenue Contributions	-684	-1,007	0	0	0
Total Income	-28,737	-60,093	-74,833	-68,298	-43,601
Resources Brought Forward	-19,217	-13,783	-2,071	-7,898	-4,557
Resources Carried Forward	13,783	2,071	7,898	4,557	0

OPTION APPRAISAL/RISK ASSESSMENT

11. Service areas have considered their proposals for new capital schemes and have prioritised them into the following categories: -
- a. Essential: projects deemed as being essential to meet legislative requirements, (including Health and Safety), and works essential to keep existing assets and services operational.
 - b. Invest to Save; projects that offer value for money and deliver efficiency savings.
 - c. Desirable; projects which improve or enhance service provision in line with Council priorities.
12. In addition consideration has been given to alternative sources of funding, including external grants and existing Middlesbrough Council budget provisions. This is particular relevant to IT development projects and Building repairs and maintenance.
13. These projects are attached at **Appendix B** along with an assessment of the timing and cost. All new starts will be subject to further appraisal in line with the Council's Capital Strategy. Schemes will need to be re-phased in accordance with the profile of existing resources.
14. The following table summarises the total bids by Council priority, service and by category: -

Service Council Priority	Essential £'000s	Invest to Save £'000s	Desirable £'000s	Alternative Funding £'000s
Regeneration	36	620	1,560	1,704
Environment	1,212	360	475	2,070
Children Families and learning	1,900	0	100	150
Social Care	1,300	448	2,593	370
Corporate Services	0	0	0	1,380
	4,448	1,428	4,728	5,674

15. The net requirement from new capital bids after allowing for alternative funding of £5,674,000 is £10,604,000
16. As part of the preparation of the Capital programme, the Business sector has been consulted.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

17. In December 2007 a review of the expected impact of the current capital programme together with an assessment of available resources to 31 March 2012 was completed. Subsequent to this a further review of the levels of funding has been undertaken. This has included: -
 - a. A review of the level of capital receipts;
 - b. Consideration to the planning period
 - c. The level of over-programming
 - d. The availability of additional resources to support the programme
18. The receipts programme has been revisited in light of the current market conditions. Currently, the credit crunch, house prices, volume of house sales and cost of borrowing are leading to a reduction in the level of receipts that can be generated by land sales. Certainly there is evidence of a more cautious approach by developers and investors.
19. Following the review of our expected programme of capital receipts the estimated level of receipts from our agreed sales programme has been reduced by approximately £1.8 million. Whilst it has been assumed that the agreed programme will continue, the Director of Resources has advised that the Council should not be seeking to extend its sales programme at this stage unless it can be demonstrated that it is key to delivering Council Priorities and achieves value for money.
20. Previously the capital programme planning period has been over a 3 year period. Given the extent of prioritised schemes and the current size it is considered that the period should be extended to 5 years. This will allow the Council to set a longer-term programme of schemes to meet its priorities. In addition the level of over-programming can be re-considered. Generally we have managed with over-programming at a level of £2.0 million over a three-year period. Caution has to be applied when considering any level of over-programming: it must be based on the reliability of projected resources, the extent to which projects are delivered on time and within budget, the extent to which the Council can secure external funding and the levels of reserves and provisions. Advice from the Director of Resources is that the over-programming assumptions should not exceed £3.3million over a 5 year period
21. The Council is able to supplement Capital expenditure by direct revenue contributions. Members will recall that we were successful in winning our appeal in respect of the Revenue support Grant population case. Executive have previously agreed that this should be used for invest to save and infrastructure type projects which meet the Council priorities. The current uncommitted balance stands at approximately £2.2 million, it has been assumed that this is available to support the overall capital programme

22. The current position in relation to available capital resources is estimated as follows:

	£`m
Previous assumptions: -	2.9
Less reduction in available capital receipts/Borrowing	-1.8
	1.1
ADD extension to planning period (3-5years)	6.0
ADD additional over-programming	1.3
ADD RSG Population funding	2.2
Resources available 2008/2009 to 2012/2013	10.6

23. Bids from services of £16,278,000 have been submitted of which alternative funding of £5,674,000 has been identified as follows: -

Alternative Funding	£`M
Information Technology Refresh Fund	800
Building Improvement Programme	660
Vat Shelter Funding	2,074
Partner Contributions	1,790
Other	350
	5,674

24. Whilst elements of the alternative funding are in place, there are 2 areas which need to be considered further: -

- a. The information Technology Refresh Fund is currently being assessed. There are a number of bids against the agreed available resource which are currently undergoing appraisal and will be subject to a separate report; and
- b. within the Environmental Services proposals is a £1.5 million contribution towards the Tees Valley Metro. It has been assumed that additional sources of funding from external grants will be achieved. This will be subject to a further report being issued to executive.

RECOMMENDATIONS

25. Overview & Scrutiny Board are asked to
 - a. Note the contents of the report.

BACKGROUND PAPERS

Medium Term Financial Plan
Quarter 3 Budget Clinic Reports 2007/2008
Prudential Indicators Report March 2008
Capital Programme Review, February 2008

AUTHOR: Paul Slocombe

TEL NO: 01642 729032