**FINANCE AND AUDIT PERFORMANCE COMMITTEE 12TH DECEMBER 2011**

**RE: CAPITAL PROGRAMME 2011/2012 TO 2014/15**

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## 1.0 PURPOSE OF REPORT

1.1 To consider the Capital Programme for the years 2011/12 to 2014/15.

## 2.0 RECOMMENDATIONS

2.1 Members consider the programme that will be presented to Council for approval. In particular:

- to note the funding options set out in section 4 below to recommend to Council, and
- to note the applications for new bids as set out in section 5 and to decide which of these bids to support and build into the capital programme.

2.2 Note the financial implications contained in section 7.

## 3.0 BACKGROUND

3.1 Projects in the programme have been submitted by Project Officers and reflect outcomes from the Officers Capital Forum Group, SLB and changes after the report being presented to Executive Briefing on the 10th November 2011

3.2 Members will be aware of the issues surrounding future capital funding in particular the drawdown on the current capital receipts reserve as highlighted in section 4 below. The pressure on future funding of the capital programme and the depletion of reserves has previously been raised with members and were reported to Council in February 2011.

3.3 A historitcal summary of the reduction in the capital receipts reserve is attached in Appendix A**.** The large receipt from Montgomery Road received in 2005/06 has been used to fund projects. No major receipts have been received after 2008/09, which together with a reduction from Right to Buy Sales has meant the reserve balance has reduced from £7.58m in 2007/08 to £1.26m by the end of March 2011.

3.3 The attached programme Appendix B assumes a virtual standstill position on schemes for future years.

3.4 Projects have been reprofiled in line with the latest spending and external funding forecasts. The major change being the reprofiling of the Richmond Park Project as a result of funding approval delays with the Football Association (FA).

3.5 Within the current financial year there may be an underspend on Private Sector Housing on minor and major works of around £180,000. Due to changes in the referral system the amount of approvals have reduced. There may however be a backlog that would need to be covered by this underspend. Additionally, the Disabled Facilities Grant budget will, in the future, no longer be supported through decent homes funding. This means that the level of expenditure will need to reduce to £295,000. Because of these uncertain compensating pressures, the potential underspend of around £180,000 has not been built into the funding assumptions below.

## 4.0 Programme to 2014-15 – Funding Issues

4.1 Due to major schemes now being completed the programme will be relatively small in future years. However, due to reduced funding even a status quo programme will have an impact on the council's general fund revenue account. The estimated cost of borrowing will be £12,873 in financial year 2012/13 rising to £99,589 by 2014/15. This assumption is based on a major use of the capital receipts reserve, estimated receipts from right to buy sales and disposal of other small plots. At the end of 2014/15 only £192,000 will be left in the capital receipts reserve. The position is summarised below:-

Table 1

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|
| Opening Bal | (1260) | (1227) | (178) | (48) |
| Receipts | (1484) | (520) | (274) | (144) |
| Funding used | 1517 | 1,569 | 404 | 0 |
| CI (Bal) | (1227) | (178) | (48) | (192) |

Financially, this option carries a great risk due to the application of receipts from land sales before they have materialised. The anticipated sales are detailed within Appendix C.

4.2 If an assumption is made that apart from sales in the current financial year only estimated right to buy sales are used the impact would be as follows:-

Table 2

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|
| Opening (Bal) | (1260) | (1227) | 0 | 0 |
| Receipts | (1484) | (120) | (144) | (144) |
| Funding used | 1517 | 1,569 | 404 | 0 |
| CI (Bal) | (1227) | 221 | 302 | (144) |
| Borrowing | - | (221) | (302) | - |

This scenario would result in the reserve being fully used in 2012/13 and the Council having to borrow £221k in 2012/13 and an additional £302k in 2013/14. **The additional borrowing cost chargeable to the General Fund would be £20,616 for 2012/13 and £44,778 from 2013/14 onwards. By 2014/15 this would mean a gross additional borrowing cost chargeable to the General Fund of £144,367.**

A decision needs to be made whether the Council risks putting forward a programme based on funding from potential capital receipts, or base the programme on current known levels of funding.

4.3 An exercise has already been undertaken after Executive Brief to relook at future uncommitted schemes. This has resulted in total savings of £99,646 across the term of this programme. These reductions have been reflected in the financial impact in this report.

## 5.0 New Bids

5.1 The following new bids have been received which SLB and the Executive have reviewed. As yet, these have not been built into the programme:

General Fund Bids Not Supported By SLB/Executive

Recycling Receptacles - An annual uplift of £5,000 plus inflation to allow for new properties. Negotiations are currently taking place whether these additional bins can be funded either directly through voluntary contributions from developers or through the Community Infrastructure Levy (CIL). It is likely that the final CIL agreement will not be in place for another 18 months. Any shortfall in the short term could be met from the Waste Management Reserve.

CCTV - SLB have recently received a report regarding options on the delivery of CCTV in the future. This bid reflects the need to update the current technology. Although the cost is estimated at £60,000 with an estimated asset life of 10 years, there would be potential revenue savings of £13,000 per annum. This can be compared against the additional cost of borrowing of £8,700.

General Fund Bid Supported by SLB/Executive

Leisure Centre - An amount of £10m (commencing in 2014/15) has been estimated for the development of a new leisure facility. A refurbishment option could potentially cost around £6.5m. It should be recognised that this option is higher risk than a new build scheme in terms of cost certainty. Furthermore, the asset life for a new centre would be c40 years and the life of a refurbishment would be c25 years. Either option would be funded from future major capital receipts, (£2.75m from the Bus Station development, £1.5m from the sale of the existing leisure centre site, £3m from the Argents Mead development and a net £0.5m receipt from the depot relocation). This would leave a balance £2.25m to fund from other sources. It is possible that an external financial contribution towards this project might be achieved.

HRA Bid Supported by SLB/ Executuve

Orchard Upgrade - A bid has been received to upgrade the current Housing Management and Rents system. Technical support for the old system will cease in December 2012. The new system will be web based and will allow customers to check their rent accounts, report repairs etc. The estimated cost is £111,286. Based on a ten year asset life the cost of borrowing chargeable to the HRA would be £16,136.

Additionally, the Council will, under the new self financing system, need to borrow £65.1m to fund the HRA subsidy buy out. The full impact on the revenue and capital budget for future years will be known after the consultants, Tribal, have completed their appraisal. This amount has already been included within the attached programme.

## 6.0 HRA Capital – update if repairs has changed.

The future year's housing repairs capital programme shows a reduction of approximately £470k. This assumes the total contract value reduction from £2.4m to £1.9m is all attributable to capital schemes. It is difficult to accurately forecast future costs as the service was only brought in house on the 28th of September. Officers will have a clearer understanding of future costs and will therefore be in a better position to assess the level of potential underspend by the end of December 2011. The cost of the Orchard upgrade could then, potentially be met from the proposed capital underspend.

The current year's budget has for now been left unchanged. Potentially there could be a saving based on the fact that the lower contract rate will apply for the majority of capital works. A final position on the savings will be known once final contractual sums are settled with Willmott Dixon.

## 7.0 Financial Implications (IB)

7.1 Capital resourcing and borrowing implications arising from this report will be reflected within the Medium Term Financial Strategy and the Prudential Code (Treasury Management) report.

Based on the current economic climate there has been a significant reduction in anticipated capital receipts.

7.2 If members agree to adopt the scenario in section 4.1 above, this assumes £938k of capital receipts between 2012/13 and 2014/15. This is a risky option in that it is harder to predict and forecast for, but if all anticipated receipts are received it would mean the attached programme is totally funded. This would still mean gross borrowing of £1.171m between 2012/13 to 2014/15 with a borrowing chargeable to general fund rising by £99,589 in 2014/15.

7.3 If the scenario in section 4.2 is adopted by 2014/15, gross borrowing would increase by another £523,000. By 2014/15 the estimated amount chargeable to the general fund would be £144,367, an increase of £44,778. This is the more certain option.

7.4 For either option future funding requirements could reduce by c£180k if savings on General Fund Housing are achieved and there were no other compensating pressures.

7.5 Members will have to decide on the option of recommending reductions on future uncommitted schemes.

New Bids

7.6 There is an additional risk with the leisure centre development. The current leisure management contract ends in April 2014. If by then development arrangements are not made there could be significant revenue costs to let a contract on a short/medium term basis.

Additionally, if future major receipts are not realised there will be a risk to the leisure centre development. It is recommended that members agree the Leisure Centre Development request to be put forward to Council for approval on the basis that the following sales are earmarked for the development.

£2.75m - Bus Station Redevelopment,
£1.5m- Future sale the Leisure Centre,
£3m - Argents Mead Development
£0.5m – Net receipt from the Depot Relocation

7.7 Members note SLB's position with regard to new bids in section 5 above and agree the bids to be forwarded to Council for approval.

**8.0 <u>Legal Implications (AB)</u>**

8.1 None arising directly from the report.

**9.0 <u>Corporate Plan Implications</u>**

9.1 The report provides a refresh of the Council's rolling Capital Programme. Any item included in the programme has to contribute to the achievement of the Council's vision, as set out in the Corporate Performance Plan.

**10.0 <u>Consultation</u>**

10.1 Expenditure proposals contained within this report have been submitted after officer consultation. Appropriate consultation with relevant stakeholders takes place before commencement of individual projects.

**11.0 <u>Risk Management</u>**

11.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

11.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

## 12.0 <u>Knowing Your Community – Equality and Rural Implications</u>

12.1 The programme contains schemes which will assist in equality and rural development. Equality and rural issues are considered separately for each project.

## 13.0 <u>Corporate Implications</u>

13.1 The Council has an agreed corporate approach to project management. This approach has been developed in collaboration with the Leicestershire and Rutland Improvement Partnership. This approach ensures that a consistent and coherent approach is applied across the Council (and across the county).

| **Management of Significant (Net Red) Risks** | | |
|---|---|---|
| Risk Description | Mitigating actions | Owner |
| If the schemes were not implemented this would impact on Service Delivery. It would also mean an inability to meet corporate plan objectives and have an impact on the reputation of the Council. | Projects are to be managed through an officer capital forum group and reported to SLB on a quarterly basis. Monthly financial monitoring statements are provided to project officers and the programme will now be reviewed twice a year. | Individual Project Officers/ Capital Forum |
| The risk of external funding not being granted. This would result in additional borrowing costs in the short term if funding is delayed or long term if funding is withdrawn. | Six monthly review of capital programme would mean that it is easier to switch resources. | Project Officer / Accountancy section |
| Risk of Capital Receipts not being realised. | The Executive approve the disposal of surplus assets as recommended by the Asset Management Strategy Group | Estates and Asset Manager / Deputy Chief Executive (Corporate Direction) |

13.2 By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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**Background Papers:** Capital Estimates 11/12 – 14/15

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