Meeting:	**Executive**
Date:	**2 November 2010**
Subject:	**Capital Programme Review**
Report of:	**Cllr Maurice Jones - Portfolio Holder for People, Finance and Governance**
Summary:	The report proposes the revised Capital Programme for 2010/11.

Advising Officer:	Richard Ellis, Director of Customer & Shared Services
Contact Officer:	Matt Bowmer, Assistant Director Finance (Chief Finance Officer)
Public/Exempt:	Public/Appendix D exempt
Wards Affected:	All
Function of:	Executive
Key Decision	Yes
Reason for urgency/ exemption from call-in (if appropriate)	N/A

CORPORATE IMPLICATIONS

Council Priorities:

(How do the recommendations contribute to achieving CBC's policy aims and objectives?)

Financial:

As set out in the report, subject to agreement to the recommendations there will be an 11% reduction in the original borrowing requirement to fund the 2010/11 programme of schemes.

Legal:

None

Risk Management:

None

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

None

Sustainability:

None

Summary of Overview and Scrutiny Comments:

- The Capital Programme review has not as yet been considered by Overview & Scrutiny.

RECOMMENDATION(S):

That the Executive

1. **Recommend to Council to approve the updated Capital Programme of £30.717M for 2010/11 (columns 10 to 12 of the summary in Appendix A).**
2. **Note the slippage of £2.832M to 2011/12 (columns 19 to 21 of the summary)**
3. **Subject to 1. above, note the 11% reduction in the borrowing requirement for 2010/11 schemes.**
4. **Note the potential pressures on the Capital Programme for 2012/13 onwards.**
5. **Confirms that no future commitments should be entered into in advance of the Local Government Finance Settlement and Budget Report to Council in February 2011.**

Reason for Recommendation(s):	*To reduce the Authority's new borrowing requirement in line with the request by Council in February 2010.*

Executive Summary

Government spending plans mean that there are fewer resources available for both revenue and capital activities and Central Bedfordshire needs to respond to this in its own spending plans.

Last February, Council approved the Capital Programme subject to an in year review to reduce the commitment to new borrowing. The outturn for the 2009/10 Capital Programme spend was £0.609M greater than planned, which gave rise to an immediate pressure. However, the new capital receipts in the order of £1.53M are forecast which more than compensate for this and the review has identified £0.938M through external funding for Housing Assistance along with a reduced requirement for temporary school accommodation. This gives rise to 17% less borrowing than planned.

However, there are pressures on Disabled Facilities Grants which need to be funded amounting to £0.468M; meeting this demand produces a net the reduction in borrowing overall of 11%.

The review also recommends £0.170M to be spent implementing the Web Strategy; the additional capital financing costs will be met from revenue efficiencies in 2011/12.

Finally, the review has also provided more detailed information on the profiling of spend for individual schemes which will enable improved reporting of the Capital Programme in year.

Introduction

1. Central Bedfordshire set its second budget on 25 February 2010. The Council endured significant financial challenges in its first year, having originally set a capital programme based on the activities and spending plans of three legacy authorities. There has been a more comprehensive approach to budget setting for 2010/11 which has given the Council firmer financial foundations. However, challenges will remain in the management of capital and revenue resources available to the authority.

2. It is recognised that overall resource levels available to the authority in the short to medium term are severely restricted. These limitations apply equally to capital and revenue resources. It is particularly important to be aware that additional capital works that cannot be financed through existing capital resources (e.g. usable capital receipts, unapplied grants and contributions) and/or new capital receipts or external government grants will require the authority to undertake additional external borrowing. This will detrimentally impact on revenue resources through additional capital financing costs.

3. Each additional £1m of borrowing adds a £0.085M cost to the revenue base budget. There are two elements to this cost. Firstly, there is the interest and historically interest rates for borrowing through the PWLB (Public Works Loan Board) have averaged 4.5%. Secondly, Local Government accounting regulations prescribe that a minimum sum is set aside annually to **notionally** repay to the principal. This is known as Minimum Revenue Provision which is currently set at 4% of the Capital Financing Requirement which is broadly in line with the Council's total borrowing. Hence, the overall cost of borrowing is 8.5%.

4. Guiding principles were established to enable the Council to deliver an affordable and sustainable capital programme:

i. New capital receipts should not be taken into account until such time as they have been received by the Council;
ii. S106 monies should not be taken into account until such time as they have been received by the Council and no internal funds should be used against the promise of future S106 monies;
iii. In the short term, the programme should focus on schemes delivering efficiencies or meeting health and safety needs;
iv. The programme should not be dependent on slippage in order to balance spend and resources;
v. There should be an annual review of the cost of all rolling programmes
vi. Reserve schemes should only go forward where there is slippage or new capital receipts; and
vii. New borrowing should be kept to a minimum to reduce pressure on the revenue budget.

These principles will be reviewed when the 2011/12 to 2015/16 Programme is considered and brought forward for approval by Council in February 2011. Specific consideration will need to be given to the use of ii. S106 monies which are seldom all received up front. More importantly, vi. Reserve schemes funded through slippage and vii. New borrowing kept to a minimum will need stricter control given the tightening financial position covered later in this report.

5. The Executive recommended the approval of the capital programme to the Council for the period 2010/11 to 2014/15, subject to:

(a) all borrowing associated with the Capital Programme being kept to the minimum necessary, with a target of achieving at least a 20% reduction in borrowing; and

(b) that a further review of the Capital Programme should be undertaken at the end of the first quarter of the next financial year with the objective of minimising the borrowing impact during 2011/12.

6. This report will consider the impact of the 2009/10 outturn on the 2010/11 Capital Programme and assess commitments against the approved 2010/11 Programme to deliver the target reduction of 20% on borrowing.

2009/10 Capital Programme

7. The provisional outturn position for 2009/10 was reported to the Executive in June. The accounts are now closed and, subject to audit, the final outturn is a net overspend of £0.609M as at 31 March 2010. The key element of the overspend is in respect of legacy commitments against the completion of the Ridgmont By Pass for which no provision was available; the total spend on the By Pass was £1.0M. There was a compensating underspend on Luton and Dunstable Busway scheme also in Sustainable Communities where the overall cost was offset by the use of additional S106 monies There were also a number of minor under and overspends which cancelled each other out across the remainder of the Programme.

8. The Capital Programme for 2009/10 was not fully delivered and, as widely anticipated, a number of schemes will be completed in 2010/11. This slippage amounts to £5.109M. There is £27.054M of gross expenditure, supported by £21.945M of grants and contributions.

9. As a consequence of the slippage there is also a variance on the funding of the Programme. The use of previously unapplied capital receipts is as planned - £17.584M has been applied leaving £14.314M for future years. The timing of the borrowing is the key impact of the slippage. Of the £8.787M agreed, there has only been a need for £4.287M at 31 March 2010. The remainder of the borrowing, £4.500M will be required as the slipped schemes complete and indeed a further £0.609M of borrowing will be required given the level of overspend set out above.

Approved 2010/11 Capital Programme

10. The approved Capital Programme for 2010/11 has planned gross expenditure of £63.6M supported by £41.0M of external funding (grants, Section 106 contributions etc.) leaving a net cost to the Council of £22.6M. The net cost of the capital programme is to be funded through £11.6M of unapplied capital receipts and £11.0M from additional external borrowing.

11. Given the agreed level of capital expenditure within the programme, the cost of borrowing is projected to increase the Council's revenue budget by £1M in 201/12 (this is equivalent to a 0.74% increase in Council Tax). The proposals almost exhaust all usable capital receipts available to the authority at this time and leave only £2.8M to support future years' programmes.

12. Exact levels of slippage from works originally agreed within the 2009/10 programme into the new financial year were not known at the time of the approval of the 2010/11 capital programme. Therefore, best estimates were included within the assumptions underpinning the approved capital programme.

13. The profile of the agreed capital programme is as follows:

Table 1

	2010/11 £M	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M
Gross Expenditure	**62.874**	**36.681**	**32.595**	**19.227**	**12.556**
Funded By:					
Grants & Contributions	40.308	17.933	11.403	7.224	6.774
New Capital Receipts	0.000	5.000	10.000	12.003	5.782
Existing Capital Receipts	11.566	2.748	0.000	0.000	0.000
Borrowing	11.000	11.000	11.192	0.000	0.000
Total	**62.874**	**36.681**	**32.595**	**19.227**	**12.556**
Impact on revenue base budget		**0.935**	**0.935**	**0.951**	
Cumulative Impact		**0.935**	**1.870**	**2.821**	
Impact on council Tax %		**0.74**	**1.48**	**2.23**	

14. There were no new capital receipts assumed for 2010/11.

15. The current review concentrates on 2010/11 and the need to significantly reduce the need for new borrowing. It should be noted that the indicative programme for 2011/12 and 2012/13 would require a further £22.192M of borrowing which along with the £11M in 2010/11 would put an additional £3M pressure on the revenue budget in future years. There needs to be a move to an affordable Capital Programme funded by grants, contributions and capital receipts. This approach will be at the heart of the 2011/12 to 2015/15 Capital Programme brought forward in February 2011.

16. A number of reserve schemes were also agreed within the approved capital programme and these were prioritised according to a scoring mechanism (against corporate objectives etc). These were to be considered for implementation if the agreed schemes were not to proceed and could be approved in the light of available resources.

Revised Capital Programme 2010/11

Existing and Slipped Schemes

17. Appendix A sets out, in detail, the incorporation of the 2009/10 slipped schemes into the approved 2010/11 Capital Programme. The summary position is set out in the table below.

Table 2

	2010/11		
	Spend	**Income**	**Net Spend**
	£M	£M	£M
Service Expenditure			
Customer & Shared Services	9.379	(1.580)	7.799
Children's Services	30.663	(24.258)	6.405
Social Care, Health & Housing	11.230	(8.736)	2.494
Sustainable Communities	39.401	(28.425)	10.976
Total Service Expenditure	**90.673**	**(62.999)**	**27.674**
Funded By:			
Unapplied Capital Receipts			11.566
Borrowing for 2009/10 Slippage and overspend			5.108
Borrowing for 2010/11 schemes			11.000
Total Funding			**27.674**

18. The review has also assessed the timing of the delivery of the schemes in the revised programme and as at the end of the first quarter of 2010/11 it is forecast that £2.832M will be undertaken during 2011/12.

Table 3

	2010/11		
	Spend	**Income**	**Net Spend**
	£M	£M	£M
Service Expenditure			
Customer & Shared Services	9.456	(1.573)	7.883
Children's Services	21.602	(18.110)	3.492
Social Care, Health & Housing	10.408	(8.314)	2.094
Sustainable Communities	32.747	(22.311)	10.436
Total Service Expenditure	**74.213**	**(50.308)**	**23.905**
Funded By:			
Unapplied Capital Receipts			11.566
Borrowing for slipped 2009/10 schemes and overspend			5.108
Borrowing for 2010/11 schemes *			7.231
Total Funding			**23.905**

** the borrowing for 2010/11 will total £10.063M when schemes totalling £2.832M forecast to be delivered in 2011/12 are completed.*

19. There is a forecast variance of £3.368M of which £2.832M is forecast slippage and the expenditure will be incurred when the schemes are completed in 2011/12.

20. There is an underspend of £0.938M. The key elements of this underspend are external funding to support the existing Housing Assistance scheme and a reduced requirement in the current year for temporary accommodation for schools. The impact of this is addressed in the 'Updated Financing Position' section below.

Reserve Schemes

21. For information reserve schemes which could not be accommodated in the Programme agreed by Council in February are set out in Appendix B. This identifies potential pressures in two of these schemes. The first is in respect of Disabled Facilities Grants. The approved Programme included provision for £1.602M supported by £0.468M of government grant. There is significant demand and currently a backlog of applications. A further £0.468M is required in the current financial year and a similar figure in 2011/12 before a steady state is achieved.

22. The second issue concerns Flitwick Leisure Centre. The scheme was identified as a reserve scheme and also put forward for inclusion in the 2011/12 programme. There is some desire to bring an element of this scheme forward into 2010/11. However, this would potentially commit the Council to an overall spend of £4.8M (this is the sum identified in the programme, work is in hand to give a more up to date estimate) ahead of consideration of the 2011/12 Programme in February 2011. It is, therefore, not proposed to bring this scheme forward at this time but to consider it alongside other proposals as part of the planning for the 2011/12 Capital Programme in the normal way.

Additional Schemes

23. The Executive considered the Web Strategy at its meeting on 8 June 2010. This has been considered as a revenue Invest to Save bid but £0.170M of the £0.255M expenditure required in 2010/11 is capital in nature. It would be appropriate to include it as an additional scheme in the Programme with an element of the efficiency saving it delivers from 1 April 2011 onwards to offset the additional capital financing costs.

24. There are further proposed new schemes totalling £0.075M net set out in Appendix C. The scheme for improvements in Swift is self financing and should proceed.

Improved management information

25. Additionally, the review has assessed the timing of capital spend and receipt of grants and contributions and this information enables capital budgets to be appropriately profiled in the Council's financial system to provide improved budget management reporting.

Updated Financing Position

26. As set out above, the approved Capital Programme assumes £11.000M of new borrowing and the use of £11.566M of previously unapplied capital receipts. In the event that all schemes in the combined Capital Programme proceed to completion, the requirement for new borrowing is actually £0.609M greater than previously planned, given the 2009/10 overspend. No resource was previously identified to cover this expenditure.

27. There had been an expectation of no new capital receipts until 2011/12. The Assets Team has been working with all services to bring forward properties for disposal, in line with the recently approved Corporate Property Assets Disposal Protocol. There is now a likelihood of a number of new capital receipts in 2010/11 which amount to £1.530M in total and these are detailed in Appendix D.

28. These new receipts would reduce the dependency on borrowing.

29. The forecast slippage set out in paragraph 18 will ease the timing of entering into new borrowing but it does not remove the commitment. It should not be forgotten that the 2011/12 Programme is also dependent on £11.00M of new borrowing. This does tie in with Guiding Principle vi. In paragraph 4. which will be reviewed when the 2011/12 to 2015/16 Capital Programme is approved in February 2011.

30. The table below sets out the revised borrowing requirement against the initial £11.000M approved. The £9.141M represents a 17% reduction against the £11.000M and will ease pressure on future years of the Medium Term Financial Plan.

Table 4

		£M
Original Approval		**11.000**
2010/11 Underspend		(0.938)
		10.063
2009/10 Overspend		0.609
New Capital Receipts		(1.530)
		9.141

Issues for the Capital Programme for 2011/12 and Beyond

31. This report has focussed on reducing the borrowing requirement for 2010/11. However, it is acknowledged earlier in the report that borrowing in the future at the levels envisaged orginally by the forward Capital Programme puts pressure on the revenue budget in future years. This will need to be addressed when the Capital Programme 2011/12 to 2015/16 is approved by Council in February 2011.

32. Further, much has been said of the revenue grant reductions anticipated in the Comprehensive Spending Review announcement on 20 October 2010. These reductions will extend to capital which will place a further pressure on resources.

Options

33. The Council resolution in February 2010 was for this review to deliver a 20% reduction in the planned borrowing borrowing for 2010/11, i.e. £2.2M which would reduce future revenue pressures by £0.187M.

34. The current position is a £1.859M or 17% reduction which broadly addresses the requirement and will ease the pressures on the 2011/12 revenue budget.

35. However, there is significant pressure on Disabled Facilities Grants which impact on a vulnerable group of the population and consideration should be given to increasing the allocation to this scheme.

36. The Web Strategy should be included in the Programme on an invest to save basis with the increased capital financing costs being the first call on the savings. Savings over and above this will form part of the 2011/12 revenue efficiencies.

Conclusion and Next Steps

37. There is a strong case for additional resources for DFGs and the budget for the scheme should increase by £0.468M.

38. The Web Strategy should be added to the Programme on an invest to save basis, the capital element being £0.170M of the overall project with revenue savings to meet the financing costs.

39. Borrowing is effectively reduced by £1.221M albeit that the financing of the £0.170M for the Web Strategy is covered through revenue efficiencies.

Appendices:
Appendix A – Reviewed Programme
Appendix B – Reserve 2010/11 Schemes
Appendix C – New Schemes
Appendix D – New capital receipts (exempt)

Background Papers: (open to public inspection)
Capital Programme 2010/11 to 2014/15 – Council February 2010.

Location of papers: (Priory House, Chicksands)