Meeting:	**Executive**
Date:	**15 November 2011**
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 2011/12.

Advising Officer:	John Unsworth, Assistant Chief Executive Resources
Contact Officer:	Charles Warboys, Chief Finance Officer
Public/Exempt:	Public
Wards Affected:	All
Function of:	Executive
Key Decision	Yes
Reason for urgency/ exemption from call-in (if appropriate)	N/A

CORPORATE IMPLICATIONS

Council Priorities:

The Capital Programme contributes to the delivery of all Council priorities.

Financial:

1. The proposed Capital Programme Review has planned gross expenditure of £78.187M (excluding the HRA) supported by £52.335M of external funding (grants, S106 contributions etc) leaving a net cost to the Council of £25.852M. The proposed HRA programme will be planned expenditure of £5.056M supported by the Major Repairs Allowance, Housing Revenue Account capital receipts and revenue contributions from the Housing Revenue Account.

Legal:

2. The Capital Programme forms part of the Council's budget as defined in the Constitution. It includes funding that is required to enable the authority to discharge its legal obligations and a failure to approve the capital programme may therefore have implications on the Council's ability to comply with these obligations.

Risk Management:

3. The affordability and sustainability of the proposed Capital Programme is dependent on the generation of new capital receipts and external grants and contributions.

Staffing (including Trades Unions):

4. Not Applicable.

Equalities/Human Rights:

5. Not Applicable.

Community Safety:

6. Under section 17 of the Crime and Disorder Act 1998 the Council has a duty to consider community safety issues across all of its functions. In developing and implementing the detailed business case for each project, implications will be carefully considered to ensure compliance with the Community Safety Partnership's priorities and plans as endorsed by this Council.

Sustainability:

7. Schemes include works to promote more sustainable modes of travel and improve the lifespan of assets and reduce energy consumption.

Procurement:

8. The delivery of the programme is reliant on a number of external suppliers to successfully deliver the capital schemes to a sufficient standard whilst ensuring value for money within statutory and legislative requirements.

Overview and Scrutiny:

9. The Chairman of the Corporate Services Overview and Scrutiny Committee is being consulted to establish when the review will be considered.

RECOMMENDATIONS:

That the Executive is recommended to:

1. **approve the revised Capital Programme for 2011/12 for approval by Council;**

2. **approve a net additional £5.032M to the original Capital Programme for 2011/12 to fund the slippage from the previous years' Capital Programme and recognise slippage of schemes into future financial years. This includes slippage of £6.9M approved by Executive in July 2011;**

3. **approve the inclusion of Flitwick Town Centre Development Scheme of £1.8M, subject to Business Case; and**

4. **approve the inclusion of Channel Shift of £0.4M that will be funded from CRM budget allocation.**

Reason for Recommendations:	*To increase the authority's new borrowing requirement in line with business need identified as part of the Capital Review.*

Executive Summary

10. Capital investment is required to ensure the delivery of the Council's priorities but the programme needs to be sustainable and affordable.

11. The Council approved a net Capital Programme for 2011/12 of £21.163M (£25.876 M including the HRA). A review has been undertaken against the agreed programme to incorporate revised slippage assumptions from previous years' schemes, amendments to original assumptions to reflect change in need and identification of slippage to future financial years.

12. 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

13. Overall resource levels available to the authority in the short to medium term are restricted. These limitations apply equally to capital and revenue resources. It is particularly important to be aware that additional capital works that are not financed through existing capital resources (e.g. grant and capital receipts) will detrimentally impact on revenue resources through incurring additional capital financing costs.

14. A review has been undertaken that assesses progress against the delivery of existing schemes and any revisions in changes in funding that need to be reflected in a revised capital programme.

2010/11 Capital Programme

15. The Capital Programme for 2010/11 was not fully delivered and, as widely anticipated, a number of schemes will be completed in 2011/12 and/or future financial years. This net slippage amounts to £6.926M, being £24.411M of gross expenditure, supported by £17.485M of grants and contributions. This slippage was previously agreed by the Executive on 12 July 2011.

Approved 2011/12 Capital Programme

16. The approved Capital Programme for 2011/12 has planned gross expenditure of £68.3M (excluding the HRA) this is supported by £47.1M of external funding (grants, Section 106 contributions etc.) leaving a net cost to the Council of £21.2M. The net cost of the capital programme was to be funded through £8.2M of unapplied capital receipts, £5.2M from previous years' resources. This leaves an unfinanced balance of £7.7M that was to be met from internal resources and/or additional external borrowing.

17. The proposals exhausted all usable capital receipts available to the authority carried forward from previous financial years and therefore required the successful generation of £5.5M of new capital receipts.

18. Exact levels of slippage from works originally agreed within the 2010/11 programme into the new financial year were not known at the time of the approval of the 2011/12 capital programme. Therefore, best estimates were included within the assumptions underpinning the approved capital programme.

19. The agreed capital programme across the Medium Term was agreed as follows:

20. <u>Table 1 – Original Capital Programme 2011/12 to 2014/15</u>

	2011/12	2012/13	2013/14	2014/15
	£M	£M	£M	£M
Gross Expenditure	**68.291**	**26.727**	**24.775**	**24.346**
Funded By:				
Existing Resources	5.215	(0.943)	0.000	0.000
Grants & Contributions	47.128	13.984	11.610	11.081
New Capital Receipts	5.500	10.300	12.003	5.782
Existing Capital Receipts	2.748	0.000	0.000	0.000
Residual Financial Requirement	7.700	3.386	1.162	7.483
Total	**68.291**	**26.727**	**24.775**	**24.346**

Revised Capital Programme 2011/12

21. Appendix A sets out, in detail, the proposed revised Capital Programme that incorporates the 2010/11 slipped schemes against the approved 2011/12 Capital Programme, changes to original Capital Programme assumptions and the schemes that are to be slipped into future financial years.

22. Capital commitments have been reviewed and changes to assumptions included in the original Capital Programme are recommended, including amendments previously agreed at Executive. The impact of the changes to the original assumptions on a service basis is set out in Table 2 below.

23. Table 2 - Analysis of Changes in Assumptions

	2011/12		
	Gross	**Income**	**Net Spend**
	£M	£M	£M
Social Care, Health and Housing	1.608	(0.648)	0.960
Children's Services	6.854	(7.354)	(0.500)
Sustainable Communities	0.037	0.918	0.955
ACE - Resources	(0.384)	0.000	(0.384)
ACE - People	(0.004)	0.000	(0.004)
Corporate Budgets	1.992	0.000	1.992
Grand Total	**10.103**	**(7.084)**	**3.019**

The main examples of net changes in assumptions to the original capital programme are:

a) Disabled Facilities Grant (net impact £1.111M cost) -
The authority has recognised additional demand for adaptions to homes of people with disabilities to meet their specific needs.

b) Capitalisation of Redundancy Costs (net impact £1.992M cost) –
The authority has successfully applied to the government to capitalise redundancy costs in the current financial year that reduces the in-year revenue pressures.

c) Flitwick Land Purchase (net impact £1.85M cost)-
The Corporate Management Group have recommended the additional purchase of land at Flitwick Town Centre for regeneration and affordable housing.

d) Luton Dunstable Busway (net impact £0.818M deferral) –
The cost to the authority of the Luton Dunstable busway scheme in the medium term financial plan has been deferred by £0.818M.

e) Affordable Housing Capital Programme (net impact £0.808M savings) -
The slippage from 2010/11 for the affordable housing scheme is no longer required.

f) General Leisure Enhancement Contingency (net impact £0.900M savings)-
The budget has been reduced as no specific projects have been identified.

24. Commitments have been identified that are to be slipped into future financial years. This equates to a net position of £5.256M on the whole programme. The main examples are set below:

a) Dunstable Town Centre Regeneration Phase 2 (net impact £2.395m).

b) Waste Infrastructure Grant (net impact £0.607M).

c) Stotfold Community Leisure and Football Development Centre Phase 1 (net impact £0.500M).

d) Schools Access Initiative (net impact £0.439M)

e) Customer Relationship Management (net impact £0.362M).

f) Watling House Property budget (net impact £0.259M)

g) Enterprise Content Management (net impact £0.259M)

h) Asset Database System (net impact £0.150M).

The impact of this slippage to future years on a service basis is set out in table 3 below.

25. Table 3 - Slippage to Future Financial Years

	2011/12		
	Gross	**Income**	**Net Spend**
	£M	£M	£M
Social Care, Health and Housing	(3.413)	3.413	0
Children's Services	(8.176)	7.737	(0.439)
Sustainable Communities	(10.791)	6.951	(3.840)
ACE - Resources	(0.973)	0	(0.973)
ACE - People	(0.004)	0	(0.004)
Corporate Budgets	(1.261)	1.261	0
Grand Total	**(24.618)**	**19.362**	**(5.256)**

26. The impact of the changes to the capital programme are set out below in Table 4:

Table 4 – Revised 2011/12 Capital Programme (excluding the HRA)

	2011/12		
	Gross	Income	Net Spend
	£M	£M	£M
Original Programme (as agreed at February 2011 Council)	**68.291**	**(47.128)**	**21.163**
Slippage from Previous Financial Years' Programmes	24.411	(17.485)	6.926
Changes to Original Assumptions	10.103	(7.084)	3.019
Slippage to Future Years' Programmes	(24.618)	19.362	(5.256)
Revised 2011/12 Capital Programme	**78.187**	**(52.335)**	**25.852**

Updated Financing Position

27. As set out above, the Capital Programme approved in February 2011 assumed £7.7M of borrowing and the use of £8.2M of previously unapplied capital receipts. Of the £8.2M, £2.748M relates to capital receipts received in previous financial years and £5.5M to capital receipts excepted in year from assets sold in 2011/12.

28. The revised 2011/12 Capital Programme has £25.7852M not funded by grants or contributions. This will be financed through the application of useable capital receipts and the utilisation of existing internal resources.

29. The Council is forecasting receiving £6.081M of capital receipts in 2011/12. It is recommended in addition to the £5.5M already being applied, to utilise the additional £0.581M of capital receipts received in year to fund the increased revised capital programme and therefore reduce the impact on revenue due to the minimum revenue provision and interest on borrowing.

30. Of the £6.018M, £4.296M is expected to be received from assets sold in the third and fourth quarter. To date only £0.830m of asset sale proceeds have been received against a forecast of £1.620M.

31. If the Council does not receive the expected £6.018M of capital receipts then the capital expenditure will have to be funded through the use of internal resources and/or additional borrowing. This will detrimentally impact on revenue through additional interest charges and the minimum revenue provision.

32. The financing of the revised capital programme is set out below in table 5.

33. Table 5- Financing of the 2011/12 Capital Programme (excluding HRA)

	£M
Net spend	**25.852**
Capital Receipts from previous years	(2.748)
Capital Receipts received in 2011/12 to be used in 2011/12 as approved by February 2011 Full Council	(5.500)
Additional Capital receipts to be received in 2011/12	(0.518)
Net financing position	**17.086**

The Housing Revenue Account

34. Appendix B set out, in detail the proposed revised capital programme of £5.056M net expenditure. The approved Capital Programme was £4.713M. There is one additional cost of £343k relating to capitalised salaries. No slippage into future years is expected.

35. The Housing Revenue Account capital programme has no effect on the general fund and will be financed by the Major Repairs Allowance, HRA capital receipts and HRA revenue contributions.

36. The revised capital programme for 2011/12 is set out below:

Table 6- Revised Capital Programme for the HRA.

	£M
Original Programme (as agreed at February 2011 Council)	4.713
Capitalised Salaries	0.343
Revised 2011/12 Capital Programme	**5.056**

Delivering the Capital Programme

37. The timing of the delivery of the Capital Programme is not consistent across the financial year. This is exemplified by an estimated £17.1M (20.5%) of the total programme of £83.243M being programmed for delivery in March 2012. This is explained through seasonal variations and other schemes that are planned at the end of the financial year. To exemplify this, in gross expenditure terms it should be noted that 22% of the Sustainable Communities programme was delivered in the final month of the 2010/11 financial year.

38. Examples include:

a) Capitalisation of Redundancy Costs - £1.9M
Redundancy costs will be capitalised at the end of the year once the costs have been incurred.

b) Flitwick Land Purchase - £1.8M
The purchase of land is expected in March 2012.

c) Highways Structural Maintenance - £0.6M
To fund additional expenditure incurred due to adverse weather conditions.

d) A5 / M1 link - £1.0M
Work scheduled towards latter part of financial year.

e) Dunstable Town Centre Regeneration, Phase One - £1.5M
Work scheduled towards latter part of financial year.

39. In addition a number of outside organisations are responsible for the delivery of the Capital Programme. These include Amey and Willmott Dixon. These factors influence the total level of delivery of the Capital Programme.

Issues for the Capital Programme for 2011/12 and Beyond

40. This report has focussed on minimising, as far as possible, the use of internal resources to fund the 2011/12 capital programme. However, it is acknowledged earlier in the report that increased use of internal resources and/or external borrowing will put pressure on the revenue budget in future years. This will need to be addressed when the Capital Programme 2012/13 to 2015/16 is approved by Council in February 2012.

41. It is recognised that the management of the Capital Programme is subject to various factors that may impact upon delivery of schemes by the end of the financial year. To exemplify this, 10% of the gross Capital Programme equates to £8.3M and demonstrates the large impact a marginal delay in the delivery of schemes identified within the 2011/12 programme has on the final outturn.

42. In order to avoid incurring additional borrowing costs, there is an increased emphasis on achieving additional resources, on a timely basis, expected through the disposal of fixed assets.

Appendices:
Appendix A – Summary Revised Capital Programme by Service for the General Fund
Appendix B – Summary Revised Capital Programme for the HRA

Background Papers: (open to public inspection)
Capital Programme 2011/12 to 2014/15 – Council February 2011

Location of papers: (Priory House, Chicksands)