
Meeting: Executive
Date: 6 December 2011
Subject: Capital Programme 2012/13 to 2015/16
Report of: Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources
Summary: The report proposes the Capital Programme for 2012/13 to 2015/16 for consultation.

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:

Financial:

The proposed Capital Programme for 2012/13 has planned gross expenditure of £78.746M (excluding the HRA) supported by £49.383M of external funding (grants, S106 contributions etc.) leaving a net cost to the Council of £29.363M (this compares to £12.743M that was agreed in the 2012/13 programme agreed in February 2011). The proposed HRA programme is expenditure of £6.142M funded by HRA capital receipts and HRA revenue contributions.

The net cost of the General Fund programme will be met through the use of previously unapplied capital resources carried forward from the previous financial year, in year capital receipts and £11.865M of additional borrowing.

Legal:

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:

The affordability and sustainability of the proposed Capital Programme is dependent on the generation of new capital receipts and external grants and contributions. In addition the Council needs to be sure that the financing costs arising from any borrowing are sustainable in the long term.

Staffing (including Trades Unions):

None

Equalities/Human Rights:

Equalities and human rights will be taken into account as part of the development of detailed business cases for each scheme.

Community Safety:

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:

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

Procurement:

The delivery of the programme is reliant on a number of external suppliers to successfully deliver the capital schemes. We will procure suppliers that deliver value for money and quality schemes ensuring the delivery of service outcomes.

Overview and Scrutiny:

The Capital Programme will be considered by the Overview and Scrutiny Committees in their December cycle of meetings.

RECOMMENDATION(S):**That the Executive**

- a. **Approve the draft 2012/13 to 2015/16 Capital Programme (as per Appendix B) for consultation with Overview and Scrutiny and other stakeholders.**
- b. **Note that the net expenditure of the 2012/13 Capital Programme has increased by £16.620M over that within the Capital Programme 2011/12 to 2014/15 approved by Council in February 2011.**
- c. **Approve the draft 2012/13 to 2015/16 Capital Programme – Housing Revenue Account (as per Appendix C) for consultation with Overview and Scrutiny and other stakeholders.**

<i>Reason for Recommendation(s):</i>	<i>To enable extensive consultation on the draft Capital Programme 2012/13 to 2015/16 prior to recommendations by the Executive to Full Council in February 2012</i>
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Executive Summary

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

The 2011/12 to 2014/15 Capital Programme as set out in the Medium Term Financial Plan (MTFP) was approved by Council in February 2011. This has been reviewed and updated for 2012/13 to 2015/16 as summarised in Appendix A. The proposals result in an increase in gross capital expenditure for 2012/13 of £52.019M. This is partially offset by an increase in external funding of £35.399M and therefore results in an increase in net expenditure for 2012/13 of £16.620M to be financed from Council funded resources e.g. borrowing.

There are further substantial increases in net capital expenditure proposed for both 2013/14 and 2014/15 which will require additional financing from Council resources.

Introduction

1. Overall resource levels available to the Authority in the short to medium term are restricted. These limitations apply to both capital and revenue expenditure. It is important to be aware that capital expenditure that is not financed through existing capital resources (e.g. grants, developer contributions and capital receipts) will reduce revenue resources over the long term through incurring additional capital financing costs.
2. In November 2011, Executive approved the in-year review of the 2011/12 Capital Programme (excluding the HRA) resulting in an increase in net expenditure of £4.689M of which £0.518M was to be funded from additional capital receipts with the balance of £4.171M to be funded from borrowing.
3. A draft Capital Programme for 2012/13 to 2015/16 has been developed factoring in the results of the in-year review plus consideration of existing priorities and proposed new schemes.
4. The issue of funding of capital expenditure cannot be overstated. Each additional £1M of capital spend financed from external borrowing adds approximately £0.08M per annum to the revenue base budget as a recurrent cost over the long term.

Draft 2012/13 Capital Programme

5. The starting point for developing the proposed 2012/13 Capital Programme was the second year of the Capital Programme covering the period up to 2014/15 agreed at Council in February 2011. Existing priorities have been reviewed and proposed new schemes included and also some existing schemes deleted.

6. Table 1 shows the original 2012/13 programme as agreed at the 24 February 2011 Full Council. After allowing for external grants and contributions of £13.984M, the original 2012/13 Capital Programme had net expenditure of £12.743M that was to be met by capital receipts of £10.3M and borrowing of £2.443M.

Table 1 - 2011/12 Medium Term Financial Plan Capital Programme– as per February 2011 Council

	2011/12 £M	2012/13 £M	2013/14 £M	2014/15 £M
Gross Expenditure	68.291	26.727	24.775	24.346
Funded by:				
Grants and Contributions	47.128	13.984	11.610	11.081
Capital Receipts	8.248	10.300	12.003	5.782
Borrowing	12.915	2.443	1.162	7.483
Total Funding:	68.291	26.727	24.775	24.346

Impact of Capital Review

7. The 2012/13 Programme has been updated for slippage from 2011/12. As part of the 2011/12 Capital Programme Review, £6.798M (net expenditure) of slippage was identified to be carried forward into the 2012/13 financial year. This slippage does not have an incremental impact on the Council's planned financing requirement, as it has been assumed in the previous year's financing assumptions.

Detailed Review of Capital Programme

8. The capital commitments included in the original 2012/13 Capital Programme have been reviewed and new proposals considered and categorised as follows:
- A. Fully externally funded schemes;
 - B. Schemes which are statutory that may have an element of external funding;
 - C. Service enhancements driven by a service benefit with little or no financial return that may have an element of external funding;
 - D. Schemes which are invest to save with a consequent reduction in revenue costs.

Reductions in Capital Commitments

9. The review has identified a reduction in capital commitments totalling £2.4M. This figure is net of external financing through grants and contributions. The key changes are:
- Reprofiting of the Luton and Dunstable Busway programme beyond the life of the Capital Programme (£1.05M).
 - Reduction in the corporate property rolling programme (£0.9M)
10. There were no schemes with significant amounts of internal funding removed from the Capital Programme.

Additional Capital Commitments

11. The draft 2012/13 capital proposals have been considered in the context of priorities which have changed over the past twelve months and a number of new schemes were put forward for consideration. The total value of these schemes, net of external financing through grants and contributions, is £12.222M. The key additions (£0.5M+) are:

Category*	Scheme	Net Cost £M
B	Further provision for the Mandatory Disabled Facilities grant in excess of Government support	0.7
D	Leisure Strategy implementation	2.0
D	Provision to reinstate highways maintenance funding to top quartile levels	4.0
D	Channel shift	1.5
D	Increase in funding for street lighting maintenance backlog	0.5
D	Highways Holistic Infrastructure Projects	1.0
D	Local Development Framework planning costs	0.5

*Category as per criteria in paragraph 8

Additional Slippage into Future Years

12. Capital commitments have been reviewed to identify schemes that could be slipped to future financial years. This exercise has resulted in a total of £0.300M being re-phased into future years from the 2012/13 capital programme.

Summary of 2012/13

Table 2 sets out the proposed Capital Programme that incorporates the changes as described above.

Table 2 – Proposed 2012/13 Capital Programme

Revision of 2012/13 Capital Programme	Original Feb 2011 £M	Movement £M	Draft Programme £M
Gross Expenditure	26.727	52.019	78.746
Less: Grants & Contributions	(13.984)	(35.399)	(49.383)
Net Expenditure	12.743	16.620	29.363

Summary of 2012/13 Programme By Ranked Criteria

Table 3 summarises the proposed Capital Programme that incorporates the changes as described above and presented in line with the categories described in paragraph 8.

Table 3 - Proposed 2012/13 Capital Programme by Ranked Criteria

Proposed 2012/13 Capital Programme	Gross £M	Grants and Contribs. £M	Net £M
A. Externally funded schemes	42.183	(42.183)	0.000
B. Schemes which are statutory	9.018	(4.788)	4.230
C. Schemes where choice exists	12.994	(2.412)	10.582
D. Schemes which are invest to save	14.551	0.000	14.551
Grand Total	78.746	(49.383)	29.363

Financing of the Capital Programme

13. The forecast of new capital receipts has been revised and the original figure of £10.3M has been increased to £11.0M.
14. Table 4 sets out the draft position including all of these changes compared to the original capital programme agreed. The full detailed draft Capital Programme is included at Appendix B.

Table 4 – Financing of 2012/13 Capital Programme

Revision of 2012/13 Capital Programme	Original Feb 2011 £M	Movement £M	Draft Programme £M
Gross Expenditure	26.727	52.019	78.746
Less: Grants & Contributions	(13.984)	(35.399)	(49.383)
Net Expenditure	12.743	16.620	29.363
Less: Capital Receipts	(10.300)	(0.700)	(11.000)
Residual Financing Requirement	2.443	15.920	18.363
Funded by:			
Existing Resources *	(0.943)	7.441	6.498
Additional borrowing / internal resources	3.386	8.479	11.865
Residual Financing Requirement	2.443	15.920	18.363

*Existing resources relate to scheme slippage and therefore funding already included within another year's programme.

15. Based upon the draft programme requiring £11.865M of additional financing as shown in Table 4 there will be an additional recurrent cost pressure of some £0.9M to the revenue budget from 2012/13 onwards.

The draft capital programme as set out in this report is aspirational. It reflects the ambition of the Council to invest in priority services. However, the revenue implications of the programme in total need to be seen in the context of other pressures and demands to ensure they are affordable and can be sustained over the medium term.

There is recognition that there are dependencies within the capital programme (for example on third parties, including external funders) and often slippage occurs from one year to the next as delivery is delayed. Therefore, in calculating the appropriate budget for financing charges, an allowance for slippage of 10% of the net capital requirement in each year has been made.

In approving the Capital Programme, the Council will be setting a framework and agreeing in principle to the inclusion of the individual schemes. Thereafter, a rigorous approach will be taken to assessing the revenue cost of all capital schemes before they are allowed to proceed and a full business case will be required even where schemes are included in the approved programme. This will enable a judgment to be made in each case as to the affordability of the scheme within the constraints of the revenue budget for financing charges. Only if this threshold is not breached will schemes proceed.

The borrowing requirement relating to Invest to Save schemes is £14.551M. These are schemes where the anticipated revenue savings will substantially exceed the additional associated risk adjusted financing costs. The s.151 officer (Chief Finance Officer) will need to be satisfied that this criterion is met before such schemes will be approved to commence. A number of the potential savings arising from the Invest to Save schemes have not been fully identified at this stage, and therefore have not been included in the Draft Revenue Budget 2012/13.

The full financing costs of the proposed Capital Programme, including what has been built in to the base budget are:

	2012/13	2013/14	2014/15	2015/16
	£M	£M	£M	£M
Base Budget b/f	11.200	11.260	11.960	12.360
Additional Charge	0.482	1.860	1.861	0.865
Total Charge	11.682	13.120	13.821	13.225

Medium Term Implications

16. Table 5 sets out the draft position over the medium term. Although there is less certainty in determining future spend and financing, the table shows that the Capital Programme will continue to produce additional cost pressures without further generation of new capital receipts and external grants and contributions.
17. The medium term forecast includes substantial new capital receipts in 2014/15 and 2015/16 in respect of the LDF programme. These are heavily dependent upon progress with planning and the state of the housing market with regard to timing and valuation.
18. The generation and timing of new capital receipts is critical to the capital programme over the medium term and represent a specific risk as to its sustainability and affordability.
19. The adoption of the proposed Capital Programme across the medium term will increase the estimated capital financing costs above those previously budgeted levels shown in the 2011/12 Capital Programme by £0.482M in 2012/13, £1.860.M in 2013/14 and £1.861M in 2014/15. There is no comparison available for 2015/16 as these assumptions were not included in the previously agreed Capital Programme.

Table 5 – Proposed Summary Capital Programme 2012/13 to 2015/16

	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M
Gross Expenditure	78.746	61.317	54.603	48.999
Less: Grants & Contributions	(49.383)	(38.869)	(32.291)	(29.680)
Net Expenditure	29.363	22.448	22.312	19.319
Less: Capital Receipts	(11.000)	(10.000)	(24.420)	(28.790)
Residual Financing Requirement	18.363	12.448	(2.108)	(9.471)
Funded by:				
Existing Resources *	6.498	(0.300)	0.000	0.000
Additional borrowing	11.865	12.748	(2.108)	(9.471)
Residual Financing Requirement	18.363	12.448	(2.108)	(9.471)
Additional Capital Financing Costs	0.482	1.860	1.861	(0.865)

*Existing resources relate to scheme slippage and therefore funding already included within another year's programme.

Housing Revenue Account

20. The draft 2012/13 – 2015/16 Housing Revenue Account (HRA) detailed Capital Programme is attached at Appendix C.
21. The move to self financing of the HRA means that from 2012/13 the capital programme will no longer be funded by the Major Repairs Allowance (MRA) but by capital receipts of housing sales and contributions from retained rentals. This will allow for greater flexibility but will also require full consideration of sustainability and affordability.
22. Detailed financial modelling of the HRA has been undertaken to support the draft Capital Programme over the medium term as presented in Table 6.

Table 6

	2012/13 £M	2013/14 £M	2014/15 £M	2015/16 £M
Gross Expenditure	6.142	10.483	10.164	6.249
Funded by:				
Housing Capital Receipts	0.200	0.200	0.200	0.200
Revenue Contributions	5.942	10.283	9.964	6.049
Total funding	6.142	10.483	10.164	6.249

Appendices:

Appendix A: Draft Summary Capital Programme 2012/13 to 2015/16

Appendix B: Draft Capital Programme 2012/13 to 2015/16

Appendix C: Draft Capital Programme 2012/13 to 2015/16 – Housing Revenue Account

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Background Papers:

Capital Programme 2011/12 to 2014/15 – Council, February 2011

Capital Programme 2011/12 Review – Executive, November 2011

Location of Papers:

Central Bedfordshire Council, Priory House, Chicksands