



REPORT TO EXECUTIVE

PORTFOLIO AREA: GOVERNANCE & RESOURCES

Date of Meeting: 22 November 2010

Public

Key Decision: Yes

Recorded in Forward Plan: Yes

Inside Policy Framework

**Title: REVISED CAPITAL PROGRAMME 2010/11 AND
PROVISIONAL CAPITAL PROGRAMME 2011/12 TO 2015/16**

Report of: ASSISTANT DIRECTOR (RESOURCES)

Report reference: RD53/10

Summary:

The report details the revised capital programme for 2010/11 together with the proposed method of financing as set out in Appendices A and B.

The report also summarises the proposed programme for 2011/12 to 2015/16 in the light of the capital bids submitted to date for consideration, and summarises the estimated and much reduced capital resources available to fund the programme.

Recommendations:

The Executive is asked to:

- (i) Note the revised capital programme and relevant financing for 2010/11 as set out in Appendices A and B;
- (ii) Make recommendations to Council to approve slippage of £3,654,300 and savings of £99,700 from 2010/11 identified in Phase 1 of the review;
- (iii) Consider the proposed criteria as suggested by SMT to be used in determining the revised capital programme (Phase 2) based on capital resources available;
- (iv) Give initial consideration and views on the capital spending requests for 2011/12 to 2015/16 contained in this report in the light of the estimated available resources;
- (v) Note that any capital scheme for which funding has been approved by the Council may only proceed after a full report, including business case and financial appraisal, has been approved;

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CITY OF CARLISLE

To: The Executive
22 November 2010

RD53/10

PROVISIONAL CAPITAL PROGRAMME 2010/11 TO 2015/16

1. INTRODUCTION

- 1.1 This report details the revised capital programme for 2010/11 together with the proposed methods of financing as set out in paragraph 3 and **Appendix A and B**.
- 1.2 The report also details the capital spending proposals for 2011/12 to 2015/16, together with the reduced capital resources available to fund the programme.
- 1.3 The guiding principles for the formulation of the capital programme over the next five year planning period are set out in the following policy documents that were approved by Council on 14 September 2010:
 - Capital Strategy 2011-12 to 2015-16 (Report RD26/10)
 - Asset Management Plan (Report RD37/10)
- 1.4 A Project Assurance Group of senior officers continues to take the lead on the prioritisation of investment and the monitoring and evaluation of schemes. This is to improve performance monitoring and business case analysis of capital projects.

2. CAPITAL RESOURCES

- 2.1 There are several sources of capital resources available to the Council to fund capital expenditure, the main ones being:
 - Borrowing (Prudential Code - see paragraph 5.3)
 - Capital Grants e.g. DFG, RHP, specific capital grants
 - Capital Receipts e.g. proceeds from the sale of assets
 - Council Reserves e.g. Projects Reserve
- 2.2 In accordance with the Capital Strategy, the Assistant Director (Resources) will make recommendations on the most effective way of financing the Capital Programme to optimise the overall use of resources.
- 2.3 It should be noted that capital resources can only be used to fund capital expenditure and cannot (with the exception of the Council's own Reserves), be used to fund revenue expenditure. There are strict definitions of what constitutes capital expenditure.

- 2.4 It should also be noted that the resources available to support the capital programme can only be estimated during the year. The final position is dependent in particular on the implication for the Council on the planned reduction of 45% in capital grants provided by Government (may not be known for some months yet). Also on how successful the Council is in achieving Capital Receipts from the sale of assets against its target i.e. the more capital receipts generated, the less is required to be taken from Borrowing and Council Reserves (and vice versa).
- 2.5 The cost of borrowing £1m to fund the capital programme will result in a charge to the revenue account in the next full year of approximately £55,000. This is made up of £15,000 for the cost of the interest payable (1.50% of £1m equates to £15,000) and a principal repayment provision of 4% of the outstanding sum (4% of £1m equates to £40,000).

3. REVISED CAPITAL PROGRAMME 2010/11

- 3.1 The capital programme for 2010/11 totalling £12,803,500 was approved by Council on 29 June 2010 as detailed in the 2009/10 out-turn report (RD10/10). Other in year changes totalling a net reduction of £273,100 give a revised capital programme of £12,530,400.
- 3.2 Government announced their comprehensive spending review in October 2010 which has resulted in a significant level of reduced funding available for the capital programme. A review of the projected capital receipts was also carried out and overall, the Council could face a reduction of up to £10 million in capital resources over the next five year period (see paragraph 5.2).
- 3.3 In light of this, a fundamental review of the current five year capital programme will be carried out in two phases. Phase 1 has been completed and is detailed below, and Phase 2 is currently in progress (detailed initially in paragraph 6.2 and subject to further reports to Executive).

Phase 1

- 3.4 The first phase involved revising the profiling of the current schemes within the capital programme to the correct year where expenditure is expected. The outcome of this identified £3,645,300 from 2010/11 which could be reprofiled into future years and £99,700 which could be returned to reserves as savings. This reduces the 2010/11 capital programme to £8,785,400 as detailed in **Appendix A**.
- 3.5 An application has been submitted for a capitalisation direction to capitalise the one-off costs of the Transformation programme incurred in 2010/11. If this was to

be granted, capital resources would be required to fund this expenditure, but there would be a corresponding saving in the revenue account. Any decision on the success of the application will not be known until late January 2011. This is not currently included in the revised capital programme but amounts to £504,000.

- 3.6 The Sub Regional Employment Site project has required additional work relating to asbestos due to damage caused to the site through vandalism. This was over and above the level of expenditure agreed to be funded within the funding agreement and other sources of finance are being investigated. A claim has been submitted to the Council's insurers to try and recover the additional costs incurred. If unsuccessful, the Council may have to fund this additional expenditure as North West Regional Development Agency has confirmed they are unable to make any further contributions. This is not currently included in the revised capital programme but amounts to £210,000.
- 3.7 This could potentially increase the capital programme for 2010/11 to £9,499,400 however further reports will be presented to the Executive once the outcome of these issues are known.
- 3.8 **Appendix B** details the revised anticipated resources available and also to take account of revised projections and valuations of asset sales.
- 3.9 A summary of the revised programme for 2010/11 is shown below:

Summary Programme	£	Appx
2010/11 Original Capital Programme	12,803,500	A
Reprofiling (result of review of programme)	(3,645,300)	
Potential savings	(99,700)	
Other adjustments	(273,100)	
Revised Capital Programme (Sept 2010)	8,785,400	A
Estimated Capital Resources available	(13,590,504)	B
Projected (Surplus) capital resources	(4,805,104)	

- 3.10 It is anticipated that there will be a significant shortfall on anticipated capital receipts generated during 2010/11, estimated at a net figure of £988,000 under the current MTFP projections. This relates to reprofiling the receipt from the sale of London Road hostel (£450,000) into future years, a reduction in receipts from the PRTB agreement with Riverside Group (£198,000), and a reduction in general asset sales and sales from Lovells (£340,000).

4. NEW CAPITAL SPENDING PROPOSALS 2011/12 TO 2015/16

4.1 The existing and new capital spending proposals are summarised in the following table. This also includes financial implications from Phase 1 of the review.

Capital Scheme	App/ Para	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Current Commitments:						
Disabled Facilities Grants	4.3	1,249	1,249	1,249	849	849
Planned Enhancements to Council Property		251	300	300	300	300
Vehicles & Plant	4.4	1,104	326	260	0	0
ICT Shared Service	4.5	245	189	193	0	0
Housing Strategy		1,053	720	720	720	0
Industrial Estates		229	0	0	0	0
Play Areas		0	50	0	50	0
Resource Centre		1,493	0	0	0	0
CCTV		20	50	50	0	0
Desktop replacement		0	0	0	108	108
Concessionary Fares		30	0	0	0	0
Families Accommodation Replacement		878	894	0	0	0
Old Town hall		970	0	0	0	0
Roman Frontier		655	0	0	0	0
Total Existing Commitments	4.2	8,177	3,778	2,772	2,027	1,257
New Spending Proposals						
Vehicles & Plant	4.4	103	(86)	85	339	2,444
Old Town hall	4.6	220	0	0	0	0
Mechanical Sweepers	4.7	100	0	0	0	0
Network print solutions	4.7	75	0	0	0	0
Rickerby Park (CS17/10)	4.8	86	39	24	53	53
Customer Contact Centre	4.9	90	0	0	0	0
Caldew Riverside decontamination		1,900	0	0	0	0
Total New Proposals	4.2	2,574	(47)	109	392	2,497
TOTAL POTENTIAL PROGRAMME		10,751	3,731	2,881	2,419	3,754

4.2 Many of the new spending proposals have not yet been considered by the Project Assurance Group. Therefore should they be approved for inclusion in the Council's Capital Programme as part of this budget process, the release of any budget would be subject to verification of the business case by the Project Assurance Group and a report to the Executive as appropriate.

Likewise details of the proposals for spend in committed areas will be subject to a full report and Business Case to the Project Assurance Group before the release of any budget.

- 4.3 The Private Sector Housing Investment budget is to cover Disabled Adaptations Grants, Renovations Grants and Minor Works Grants.
- 4.4 The anticipated budgets for replacement of the Council's vehicle fleet are included in the table above.
- 4.5 The ICT Shared Services budget is in line with the Allerdale Shared Services Business Case. Both Council's are reviewing the capital requirements in light of the current capital constraints.
- 4.6 Additional budget due to revised external funding package to enhance facilities at the Old Town hall to comply with the specification for a strategic Tourist Information Centre as defined by Cumbria Tourism.
- 4.7 Network Print solutions and the purchase of mechanical sweepers are new invest to save projects. Invest to save projects are to be funded from the revenue savings they generate. Revenue savings will therefore not be accounted for in the revenue budgets until the capital resources have been replenished by the capital cost of the invest to save scheme.
- 4.8 Proposed five year enhancement plan detailed in report CS17/10.
- 4.9 Phase 2 and 3 of the refurbishment of the Customer Contact Centre which will generate additional revenue income.
- 4.10 An earmarked reserve has been established for Asset Management which totals £2m. £1m of this can be used to provide resources for investment in the Council's industrial estates to ensure rent yields are maintained/increased. A further £1m is currently earmarked for strategic property purchases.

5. POTENTIAL CAPITAL RESOURCES AVAILABLE

- 5.1 The table below sets out the estimated revised resources available to finance the capital programme for 2011/12 to 2015/16 based on the announcements by Government in the spending review.

Source of Funding	Para	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Capital Grants:						
• Regional Housing Pot	5.4	0	0	0	0	0
• Disabled Facilities Grant	5.5	(663)	(663)	(663)	(663)	(663)
• General Grants	5.6	(1,607)	0	0	0	0
Balances / Earmarked Reserves	5.7	(30)	0	0	0	0
Capital Receipts:						
• Generated in year – General	5.8	(410)	(660)	(410)	(410)	(410)
• Generated in year – PRTB	5.9	(300)	(300)	(300)	(300)	(300)
Direct Revenue Financing / Invest to Save	5.10	(35)	(35)	(35)	(35)	(35)
TOTAL		(3,045)	(1,658)	(1,408)	(1,408)	(1,408)

5.2 Anticipated resources available have been revised in light of the potential reduction in grants of approximately 45% announced in the spending review, and also to take account of revised projections and valuations of asset sales. The following table shows the potential **reductions** in capital resources from 2010/11 to 2015/16.

	Total £000	Note
Regional Housing Pot	5,610	
PRTB	934	
General Asset sales	1,700	
Lovells/Raffles	1,790	
	10,034	1

Note 1: Included within the total is a reduction of £988,000 for 2010/11 (see paragraph 3.10).

5.3 A new system of capital finance (Prudential Code) was introduced on 1 April 2004, which gives authorities freedom to borrow to fund capital schemes subject to the over-riding principles of Affordability, Prudence and Sustainability. Whilst the new freedoms could significantly impact on the capital resources available to the Authority, the principles referred to in effect mean that the Council is limited by the ongoing cost of any borrowing (i.e. the cost of prudential borrowing falls to be met from the General Fund recurring expenditure). The Prudential Code requires authorities to develop their own programmes for investment in fixed assets, based upon what the authority and local taxpayers can afford, and subject to a full Business Case and Options appraisal process. Further details on the Code can be found elsewhere on the agenda in the Treasury Management Report (RD55/10).

The Council in the current financial climate is not considering any prudential borrowing however this will be kept under review.

- 5.4 Regional Housing Pot grant reduced by £354,000 in 2010/11, and initial indications from the Government spending review indicate that this grant could be cut completely. On this basis, estimated receipts of £1.122m for future years have been removed from the projections. A further report will be presented to the Executive once the position of Regional Housing Pot grant has been received.
- 5.5 Disabled facilities grant allocation will not be announced until January 2011, although it has been indicated that this grant will be protected at the 2010/11 levels. A further report will be presented to the Executive once the 2011/12 allocation has been received.
- 5.6 Grant awarded in 2010/11 is required to be carried forward due to slippage. This is in relation to the Roman Frontier and Resource Centre projects.
- 5.7 Provision established to fund Concessionary fares. Due to the transfer of the service from the Council, this will no longer be required and will be considered through Phase 2 of the review.
- 5.8 Capital receipts from the sale of fixed assets, including the sale of the Council's interest in land on the Raffles estate and other specific asset disposals have been revised downwards based on updated projections from Property Services. This also includes an anticipated reduced receipt from the sale of the London Road accommodation previously included in 2010/11.
- 5.9 The Preserved Right to Buy (PRTB) sharing arrangement with Riverside Group is for a fifteen year period with the Council being entitled to a pre-agreed reducing percentage of the receipts. Right to Buy sales are predicted to be significantly below the original projections due to the downturn in the housing market and the general economic climate. Updated projections for the next five-year period have been incorporated in to the MTFP/Capital Strategy.
- 5.10 Direct revenue financing in relation to invest to save schemes.

6. SUMMARY PROVISIONAL CAPITAL PROGRAMME 2011/12 TO 2015/16

A summary of the estimated resources compared to the proposed programme year on year is set out below:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Estimated in year Resources available (para 6.1)	(3,045)	(1,658)	(1,408)	(1,408)	(1,408)
Proposed Programme (para 4.1)	10,751	3,731	2,881	2,419	3,754
Projected (Surplus)/Deficit	7,706	2,073	1,473	1,011	2,346
Cumulative B/Fwd Balance	(4,805)	2,901	4,974	6,447	7,458
Cumulative year end Position					
• Capital Deficit	2,901	4,974	6,447	7,458	9,804

- 6.1 The above table indicates that the current level of capital programme over the next five years is unachievable due to capital funding being used up in 2011/12. As a result, a further fundamental review (Phase 2) is being carried out. This will be subject to further reports at a future Executive.

Phase 2

- 6.2 Phase 2 of the review of the capital programme will concentrate on 'draft' criteria proposed by Senior Management Team for Executive consideration in meeting the challenge of a £10 million reduction in capital resources. The proposed criteria for Phase 2 which **the Executive are asked to consider** are detailed below:
- To maintain funding for committed projects, statutory requirements and/or funded from external sources
 - complete 'one-off' committed capital projects
 - limit the DFG budget to the level of the capital grant awarded. Any additional qualifying DFG expenditure to be met from within the existing capital programme or revenue budgets subject to the Council's virement rules.
 - ring-fence sufficient capital receipts generated through the Asset Review to deliver the Asset Management Plan
 - support invest to save schemes with a minimum return on investment within 5 years. Revenue savings will be used to fund the capital expenditure in the first instance before being recognised in the revenue account.
 - retain a minimum level of capital reserves of £1.5 million to fund emergency capital expenditure.
 - retain a minimum £500,000 budget provision for capital enhancement in the capital programme to fund improvements to Council assets including

buildings and vehicles and plant replacements. Expenditure to be agreed annually on a needs basis by the Executive.

- no new major 'one-off' capital projects unless wholly funded by third party grants.
- Funding of housing strategy dependent on residual i.e. much reduced Regional Housing Pot grant being received in some form.
- Revisit leasing as an option for the procurement and financing of replacement vehicles.
- To review the use of other specific earmarked capital reserves.

The full implications of the Phase 2 review will be subject to a further report to the Executive on the 13 December 2010.

7. CONSULTATION

7.1 The Resources, Environment and Economy and Community Overview and Scrutiny Panels will consider the requests for their areas of responsibility at their meetings in November and December. Feedback of any comments on the proposals will be made to the Executive on 13 December prior to the Executive issuing their draft budget proposals for wider consultation on 20 December.

8. RECOMMENDATIONS

The Executive is asked to:

- (i) Note the revised capital programme and relevant financing for 2010/11 as set out in Appendices A and B;
- (ii) Make recommendations to Council to approve slippage of £3,654,300 and savings of £99,700 from 2010/11 identified in Phase 1 of the review;
- (iii) Consider the proposed criteria suggested by SMT to be used for a revised capital programme (Phase 2) based on capital resources available;
- (iv) Give initial consideration and views on the capital spending requests for 2011/12 to 2015/16 contained in this report in the light of the estimated available resources;
- (v) Note that any capital scheme for which funding has been approved by the Council may only proceed after a full report, including business case and financial appraisal, has been approved;

9. IMPLICATIONS

- Staffing/Resources – as detailed on the individual appraisal forms
- Financial – included within the report
- Legal – none
- Corporate – SMT and SPG have considered the new spending proposals contained within this report.
- Risk Management – as detailed on the individual appraisal forms

- Equality Issues – none
- Environmental – as detailed on the individual appraisal forms
- Crime and Disorder –as detailed on the individual appraisal forms

10. IMPACT ASSESSMENTS

Does the change have an impact on the following?

Assessment	Impact Yes/No?	Is the impact positive or negative?
Equality Impact Screening Does the policy/service impact on the following?		
Age	Yes	Positive
Disability	Yes	Positive and negative
Race	Yes	Positive
Gender/ Transgender	No	
Sexual Orientation	No	
Religion or belief	No	
Human Rights	No	
Social exclusion	Yes	Positive
Health inequalities	Yes	Positive
Rurality	Yes	Positive

If you consider there is either no impact or no negative impact, please give reasons:

Future year budgets for Disabled Facilities Grant is protected at 2010/11 levels. Further impact assessment work will take place once allocation is announced.

Capital Programme includes a range of positive projects that will directly benefit protected characteristics:

The Resource Centre, Housing Strategy (includes rural), Play Area Development, Families Accommodation Replacement, Harker Dene Site, Heysham Park Play Area, Lowry Hill Park, Trinity MUGA, Play Trail.

The revision of funding has resourced the Fuel Poverty work.

If an equality Impact is necessary, please contact the P&P team.

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Scheme	2010/11 Original July £	2010/11 Revised Phase 1 Review £	Notes
Customer Contact Centre	49,600	49,600	
Chances Park	234,000	234,000	
Resource Centre	3,057,100	1,563,700	1
Environmental Enhancements	168,000	168,000	
RBS Shared Service	111,400	111,400	
Document Image Processing	45,000	45,000	
Housing Strategy	995,800	519,900	1
Planned Enhancements to Council Property	373,400	427,400	1
Willowholme Industrial Estate	139,000	60,000	1
Kingstown Industrial Estate	499,100	349,100	1
Play Area Developments	185,000	185,000	
Vehicles, Plant & Equipment	427,400	364,700	1
IT Equipment	484,700	484,700	
CCTV	70,000	0	2
Families Accommodation Replacement	200,000	28,000	1
Old Town Hall - Strategic TIC	970,000	0	1
Roman Frontier	1,988,500	1,333,900	1
Disabled Facilities Grants	1,473,500	1,473,500	
Gateway - General Expenses	29,700	0	2
Ghyll Bank Gypsy & Traveller Site	48,600	61,900	3
Lowry Hill Park	46,200	46,200	
Trinity Church MUGA	135,500	135,500	
Heysham Park Play Area	600	600	
Petteril Riverbank Protection Work	1,300	1,300	
Hammonds CCTV	4,000	4,000	
Caldew/City Centre Flood Defence	12,100	12,100	
Historic Quarter	719,800	719,800	
Carbon Trust Initiative	6,000	6,000	
Renaissance Improvements	24,700	13,400	3
ODPM Private Sector Renewal	25,000	25,000	
Sheepmount Development	800	800	
City Play Trail	0	83,200	3
Sub Regional Employment Sites	277,700	277,700	
TOTAL	12,803,500	8,785,400	

Notes:

1. Budget reprofiled to/from future years.
2. Returned to reserves as savings
3. Other variations relate to virements between schemes or additional contributions received as set out in previous Executive reports.

REVISED CAPITAL PROGRAMME 2010/11 – PROPOSED FINANCING

Source of funding	2010/11 Original	2010/11 Revised Phase 1 Review	Notes
	£	£	
Capital Grants:			
• RHP	768,000	768,000	
• DFG	663,000	663,000	
• Sub Regional Employment Sites	277,700	277,700	
• Resource Centre	1,130,000	998,000	1
• Roman Frontier	1,928,500	1,333,900	1
• Chances Park	234,000	234,000	
• Old Town Hall	880,000	0	1
• General	0	76,900	2
• Slippage from 2008/09	750,500	750,500	3
Capital Receipts:			
• B/fwd from previous year	7,741,304	7,741,304	
• PRTB receipts	400,000	202,000	4
• Generated in year	1,200,000	410,000	5
Capital Contributions			
• General	80,400	80,400	
Use of Reserves	0	50,000	6
Direct Revenue Financing	4,800	4,800	
TOTAL FINANCE AVAILABLE	16,058,204	13,590,504	
TOTAL PROGRAMME (SEE APP A)	12,803,500	8,785,400	
PROJECTED SURPLUS CAPITAL RESOURCES AVAILABLE	3,254,704	4,805,104	

Notes:

- Resources have been reprofiled into future years to match expenditure.
- Changes to general grants relate to City Play Trail (£71,900) and Planned Enhancements to Council Property (£5,000).
- These relate to grants and contributions received in 2009/10 for which the scheme was uncompleted and which are required in 2010/11 and were carried forward as capital grants unapplied at the year end.
- There is anticipated to be a shortfall in PRTB receipts for the year due to the decline in the housing market and the reduced number of anticipated sales in the year. The revised projection for 2010/11 is that few sales will occur realising a receipt of £202,000.
- The anticipated receipts from the Lovells agreement and general capital receipts have been revised downwards based on updated property valuations. The expected receipt for the sale of London Road has been carried forward to a future year. The initial review identified potential agricultural sales which are subsequently to be held in reserves.
- £50,000 from Energy Efficiency Advice Centre Reserve to be used for Fuel Poverty.