

Appendices



Item No.

NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title

CAPITAL PROGRAMME 2008-09 TO 2012-13

AGENDA STATUS:

PUBLIC

Cabinet Meeting Date:	20 February 2008
Key Decision:	YES
Listed on Forward Plan:	YES
Within Policy:	YES
Policy Document:	Capital Strategy
Directorate:	Governance and Improvement
Accountable Cabinet Member:	Malcolm Mildren
Ward(s)	Not Applicable

1. Purpose

1.1 The purpose of the report is to:

- To present the proposed capital programme for 2008-09 and outline proposals for 2009-10 to 2012-13.
- To outline the funding issues arising in 2008-09 and future years.
- To present the Council's Capital Strategy for 2008-09 to 2010-11
- To ask Cabinet to recommend to Council that they approve the recommendations in paragraph 2 below.

2. Recommendations

2.1 That the Cabinet recommend to Council that they approve:

- a) That Cabinet be authorised, once the programme has been set, to approve new capital schemes, and variations to existing schemes, arising during 2008-09, subject to the funding being available and the schemes being in accordance with the objectives and priorities of the Council.
- b) The capital programme for 2008-09 as set out at **Annex A** amounting to £19.003m.
- c) The capital financing principles to be applied in 2008-09, as set out at paragraph 3.2.6.
- d) The proposed financing of the capital programme for 2008-09 as set out at paragraphs 3.2.7 to 3.2.8 and **Annex B**.
- e) The Capital Strategy for 2008-09 to 2010-11, set out at **Annex E**

2.2 That the Cabinet note:

- a) The contribution of each 2008-09 capital scheme to the Council's corporate priorities for 2008-2011, as set out in **Annex C**.
- b) The expenditure and financing projections and potential funding gap for future years as set out at **Annex D**.

3. Issues and Choices

3.1 Report Background

The Capital Programme and the Council's Corporate Priorities.

- 3.1.1 Project appraisals have been completed for all 2008-09 capital programme bids. Each project appraisal demonstrates how the scheme will contribute to the Council's corporate priorities. **Annex C** sets out how the schemes in the proposed capital programme contribute to the Council's corporate priorities for 2008-2011.
- 3.1.2 The project appraisals also outline the contribution of the scheme to statutory duties and legal commitments, partnership working, performance indicators, service strategies and plans, equalities, other corporate initiatives, national priorities and targets, and environmental impacts. These factors are all taken into account in formulating a proposed capital programme that, within the resources available, will best target the Council's corporate priorities.
- 3.1.3 Officers maintain a file of all signed project appraisals and copies of individual appraisals are available on request.
- 3.1.4 Cabinet are asked to recommend to Council that Cabinet be authorised, once the programme has been set, to approve new capital schemes, and variations to existing schemes, arising during 2008-09, subject to the funding being available and the schemes being in accordance with the objectives and priorities of the Council.
- 3.1.5 Bids for future year starts have been put forward in outline only, and these are included in the programme for planning purposes. Project appraisals will be completed for these bids during the year preceding the proposed start, and Council will decide which bids will be agreed for inclusion in the programme in the preceding February or March of each year.

3.2 Issues

Capital Programme

- 3.2.1 The proposed capital programme for 2008-09 to 2012-13 is attached at **Annex A**. The programme is split between General Fund (GF) and Housing Revenue Account (HRA) schemes, and is made up of:
- Continuation schemes from 2007-08 (GF only);
 - New bids for 2008-09 starts;
 - Earmarked amounts for essential works, for which specific schemes have not yet been agreed (GF only);
 - Outline proposals for future year starts.

3.2.2 The total value of bids for the 2008-09 capital programme was £27.695m and was substantially in excess of available resources. Those bids that have not been prioritised for inclusion in the 2008-09 proposed capital programme due to lack of resources do not form part of the programme presented to Cabinet. These schemes may be re-bid for at a future date.

3.2.3 Potential slippage from 2007-08 has not been included in the proposed programme on the basis that any slippage that does occur will be fully funded from resources also brought forward from 2007-08. Cabinet will be advised of the 2007-08 slippage position, and its impact on the 2008-09 capital programme, at their July meeting, following the closure of the 2007-08 accounts.

3.2.4 The value of the total proposed capital programme is £19.003m, as set out in the following table.

Capital Programme 2008-09	£m	£m
General Fund		
Continuations from prior years	400	
New bids supported by project appraisals	3,387	
Earmarked amounts for essential works	600	
		4,387
Housing Revenue Account (HRA)		
New bids supported by project appraisals	14,616	
		14,616
Total		19,003

2008-09 Funding Issues

3.2.5 Funding for the Council's 2008-09 proposed capital programme comes from a variety of sources as set out below:

- a) Grants. These are usually received from government departments or agencies, are ring fenced to a specific scheme or to a specific area of expenditure or government initiative, and are not available for use across other areas of the programme. An example is the HRA Major Repairs Allowance (MRA), a government allocation that is specifically given to local authorities for the purposes of raising their housing stock to decent homes standards.

- b) Third party contributions. These are usually received from non-government bodies, and are generally linked directly to a specific scheme. An example might be a parish contribution for specific works in their locality. This category also includes Section 106 funding from developers.
- c) Revenue contributions. These may be used across the programme, although HRA contributions may only be used on HRA expenditure. In practice revenue contributions tend to be related to either specific schemes or service areas.
- d) Capital receipts. These are received as a result of asset sales, which may be from right to buy sales of housing stock, or from the sale of other council owned property assets, either general fund or HRA. In respect of some HRA receipts, including right to buy receipts, a portion of the receipt has to be returned to government under pooling arrangements; the balance is referred to as the usable capital receipt.
- e) Supported borrowing. This is so-called because the government supports the revenue costs of repayment of principal and interest through the formula grant settlement. It is usually directed at specific services.
- f) Unsupported (prudential) borrowing. The Council has to ensure that all unsupported borrowing is prudent, affordable and sustainable; hence it is often referred to as prudential borrowing. The revenue costs of repayment of principal and interest must be provided for in the Council's debt financing budget.

3.2.6 It is proposed that the following principles are used in respect of capital programme funding for 2008-09.

- a) Hypothecated funding – i.e. funding linked directly to a specific scheme or service area, such as grants, third part contributions, revenue contributions and supported borrowing – is allocated 100% to the relevant scheme or service.
- b) Usable capital receipts from the sale of council housing stock under right to buy legislation is directed at the HRA capital programme to meet the requirements of decent homes targets. This is a change in policy from previous years, as these receipts have previously been used towards General Fund expenditure.
- c) Usable capital receipts from general asset sales, whether HRA or GF, are used towards GF capital projects. This reflects the fact that the Council is not currently in a financial position to be able to direct these general HRA receipts towards the HRA programme. However this policy may be reviewed in future years.

It is proposed that a prudent ceiling of £1m of funding from these usable capital receipts is assumed, and that any receipts over and above this figure are put into an unearmarked capital reserve. This represents sound financial management; it will significantly reduce funding uncertainty and risk around the programme.

The unearmarked capital reserve will be built up during the year, with a view to creating a minimum capital reserve of £500k by 31 March 2009, £750k by 31 March 2010 and £1m by 31 March 2011. Any amounts over and above this will be held back for allocation against the following years capital programme. The only call on the unearmarked capital reserve during 2008-09 will be for unforeseen emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Cabinet.

- d) Unsupported (prudential) borrowing of £1.892m will be used to support the proposed General Fund capital programme in 2008-09. A further amount of £1.208m of prudential borrowing will be set aside as a contingency to deal with urgent and emerging capital expenditure issues identified during the year or schemes identified as a result of strategic decisions or corporate business cases. This has been provided for in the Council's debt-financing budget, creating a total prudential borrowing pot of £3.1m.

The £3.1m borrowing will create a revenue commitment of £28k in 2008-09 (interest only, from 1 Jan 09) and £212k per annum in future years (principal and interest).

3.2.7 The table below outlines the way the capital programme will be funded in 2008-09.

Funding source	GF	HRA	Total
	£m	£m	£m
Supported borrowing			0
Prudential borrowing	1,892		1,892
Capital receipts	1,000	1,500	2,500
Major Repairs Allowance		7,831	7,831
Grants	1,095		1,095
Third party contributions			0
Revenue contributions	400	5,285	5,685
Total	4,387	14,616	19,003

- 3.2.8 **Annex B** shows the proposed financing for 2008-09 on a scheme-by-scheme basis. Members should note that actual financing at year-end might differ at detailed level from the proposals in the annex in order to optimise the resources available to the Council at that time.
- 3.2.9 **Annex D** shows the expenditure and financing projections for the full five-year period from 2008-09 to 2012-13 (rounded to nearest £000), and identifies the potential funding gap for each year. This information has been put together based on information supplied by budget managers, and the figures will change as plans are firmed up and further details become available. The funding gap can be addressed either through a reduction in expenditure – i.e not all bids being agreed – or through the identification of additional funding sources, which may include the use of prudential borrowing or capital receipts. Members will agree a fully funded capital programme in the February or March prior to the start of each future financial year.
- 3.2.10 The unfunded bids from the current year have not been included in the future year forecasts, but may be re-bid for in next year's budget round.

Capital Strategy

- 3.2.11 The proposed Capital Strategy for 2008-09 to 2012-13 is attached at **Annex E**. This updates the Capital Strategy approved by Cabinet on 29 January 2007.

3.3 Choices (Options)

- 3.3.1 Cabinet are asked to approve the recommendations at paragraph 2.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The capital programme is set in the context of the Council's Capital Strategy. The proposed Capital Strategy for 2008-09 to 2012-13 is attached at **Annex E**.
- 4.1.2 The approval of the capital programme 2008-09 forms part of the annual budget setting process, and if approved the programme will become a policy document.

4.2 Resources and Risk

- 4.2.1 Members are required to agree a balanced capital programme. The 2008-09 programme at **Annex A** is fully funded and will meet this obligation.
- 4.2.2 The revenue implications of each scheme included in the proposed capital programme for 2008-09 have been included in the revenue budget projections for 2008-09 and future years. This includes debt financing budget impacts arising from prudential borrowing to support the programme.

4.2.3 Each scheme will be subject to risk assessment and risk management in respect of both financial and non-financial aspects of the project. This is the responsibility of the project manager. Overall risks around capital programme financing are monitored by the Finance Manager (Capital & Treasury) and any emerging issues are reported to the Council's Chief Financial Officer (the Corporate Director for Finance).

4.3 Legal

4.3.1 A number of the schemes in the programme are necessary to fulfil the Council's legal or statutory obligations. The legal and statutory issues relating to each scheme are set out in the individual project appraisals.

4.4 Equality

4.4.1 Each completed project appraisal includes responses to the following questions:

- State specifically the equalities issues that have been identified that this project will address?
- How will this project address the equalities issues that have been identified?

4.4.2 An Equalities Impact Assessment will be completed for each scheme in the agreed capital programme.

4.5 Consultees (Internal and External)

4.5.1 Consultations are undertaken in respect of individual schemes within the programme, and these are explained in the project appraisals.

4.6 How the Proposals deliver Priority Outcomes

4.6.1 See paragraphs 3.1.1 and Annex C

4.7 Other Implications

4.7.1 Other implications may arise in relation to specific capital schemes. These are addressed in the individual project appraisals.

5. Background Papers

None

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