

CABINET

15 December 2004

CAPITAL PROGRAMME AND BUDGET 2004/05 TO 2009/10

REPORT OF DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB883 Financial Strategy 2005/06 to 2009/10 27 July 2004

CAB884 Capital Strategy and Programme 27 July 2004

CAB924 Revenue Budget 2005/06 13 October 2004

CAB951 Corporate Strategy 2005/08 13 October 2004

EXECUTIVE SUMMARY:

This report provides a detailed overview of the capital programme for the next six years. The report includes details of the capital programme budget approved by Cabinet in July 2004 and covers changes that have been made to the programme since that report.

The report also gives information on the Prudential Code and considers sources of funding for capital expenditure.

RECOMMENDATIONS:

1. That Members give an indication of priorities on requests for capital growth as set out in paragraph 2.7 but defer final decisions on this until the Council's overall budget and Council Tax for next year are decided upon.
2. That the remainder of the capital programme for 2004/05 to 2009/10 be approved and that further reports be made to Members as appropriate for individual scheme approval in accordance with the Financial Procedure Rules and the Capital Strategy.
3. That the cash backed Provision for Credit Liabilities (PCL) be transferred to usable capital receipts as per paragraph 5.4.

CABINET15 December 2004CAPITAL PROGRAMME AND BUDGET 2004/05 TO 2009/10REPORT OF DIRECTOR OF FINANCE1 Introduction

- 1.1 This report provides an update on the capital programme for the period from 2004/05 to 2009/10 and gives comment on any significant variations from the capital programme previously considered by Cabinet on 27 July and approved by Council on 3 November. These variations arise primarily from projects approved by Cabinet, bids from Performance improvement Committees (PICs), supplementary estimates or slippage/reprofiling of existing budgets, plus the incorporation of more detailed information on funding, and are referenced in the Appendix.
- 1.2 This report follows on from the annual capital strategy approved in July and includes considerations by the officer Capital Programme and Assets Group (CPAG).
- 1.3 Where additional bids for capital funding are being prepared these are noted in the programme. Further reports will be brought to Cabinet before funds are committed.

2 Summary

- 2.1 The capital programme comprises individual schemes (such as Sussex Street Hostel), discrete programmes (such as CCTV) and ongoing general budget programmes (such as renovation grants).
- 2.2 Although projections for six years are included in the programme it is of necessity front loaded as identified schemes are programmed in. The Government's proposals for pooling of capital receipts took effect in April 2004 and will have an effect on the programme in future years.
- 2.3 The capital programme is broken down into portfolio areas for ease of reference.
- 2.4 The major area of expenditure in the capital programme is Housing (approximately 70% of the programme) – primarily in respect of the Council's own housing stock but also supporting the improvement of sub standard private stock and the provision of more affordable housing in the District. There are housing enablement and development proposals to assist social landlords and voluntary groups in the provision of permanent and temporary affordable housing within the Winchester District.
- 2.5 One issue to be considered in the coming months is the projected shortfall of £400,000 pa on Housing repairs as identified through the Options project. The HRA is expected to be the prime source of funding but capital receipts could be used to assist with financing the shortfall, albeit the revenue cost of using receipts falls on the General Fund.
- 2.6 The remaining 30% of the capital programme is spread across the other portfolios.
- 2.7 Cabinet received the following requests for capital growth in report CAB924 at the meeting on 13 October and Members are now asked to indicate the priority they assign to these requests:

	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000

Broadway/Friarsgate consultancy	75	75	75	0	0
Accessibility to Council services	10	0	0	0	0
Recycling Bins	0	250	250	250	250
TOTAL	85	325	325	250	250

3 Prudential Code

3.1 The new prudential framework for local authority capital investment was introduced in the Local Government Act 2003. CIPFA has developed the *Prudential Code for Capital Finance in Local Authorities* as a professional code of practice to support local authorities in taking financial decisions. The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

3.2 Due regard has been given to the Prudential Code in preparing the capital programme and the financial processes of the City Council are designed to satisfy the requirements of the Code.

4 Funding

4.1 Various sources of funding are identified in the Appendix. The main sources are briefly explained below.

4.2 *Supported Capital Expenditure (formerly Credit Approval)*. This is an authority to spend, subject to the Council having the necessary cash backing. The Council received a basic credit approval of £869,000 in 2003/04. Although there is still a possibility of future allocations no provision has been made in the programme for the receipt of supported capital expenditure in future years as the information provided by the provisional settlement does not contain sufficient detail.

4.3 *Capital Receipts*. This is the main source of funding for capital expenditure over the period of the capital programme. Under current government regulations up to 75% of capital receipts from Housing is being paid into a central pool from April 2004. There is a transitional arrangement whereby the City Council can claim back a reducing proportion of pooled receipts for the next three years to support the provision of affordable housing in the District.

4.4 *Major Investment Reserve*. The other major source of funding for the capital programme is the reserve that has been built up from revenue headroom and underspends in recent years. This is a finite reserve and can also be called upon to support revenue expenditure.

4.5 *Grants*. Where specific government grants are available application is made if appropriate. Awards have been made for lottery funding and Home Office grants for CCTV and applications have been submitted for other Government money, such as E-government grants. Mandatory renovation grants also attract a capital grant of 60%.

4.6 *Earmarked Reserves*. There are specific earmarked reserves available for particular elements of the programme – the Bapsy Bequest, the Car Park Property Reserve, the Operational Property Reserve, the ICT Strategy Reserve and the Land Charges Computerisation Reserve are the sources in the programme covered by this report.

4.7 *Revenue Contributions*. Some capital expenditure may be funded directly from revenue and this is a charge to the revenue budget in the year in which expenditure is incurred.

4.8 *Other Sources.* Some minor contributions are available from other sources, such as local business grants towards CCTV or contributions from local supporters towards specific projects.

5 Capital Receipts

5.1 The bulk of capital receipts comes from the sale of council housing properties and the availability of receipts is directly tied to the number of properties sold in any one year. These sales are currently running at approximately 30/40 per annum.

5.2 A smaller element of capital receipts comes from the sale of surplus general fund properties and land. In determining whether to sell off assets the balance between rental income supporting the revenue budgets and the capital receipts obtainable from selling assets is taken into account.

5.3 As noted in paragraph 4.3 above current Government rules for national pooling of capital receipts will severely restrict the City Council's ability to fund a substantial capital programme in the future.

5.4 The new capital financing regulations that came into force in 2004 allow debt free local authorities with a negative credit ceiling to treat all or part of any sums set aside as usable capital receipts, up to the level of which the credit ceiling on 31 March 2004 was less than nil. The cash-backed Provision for Credit liabilities (PCL), i.e. that left over after all the authority's long term debt had been repaid, can thus be transferred to usable capital receipts. With the issue of the Regulations recently it is thought sensible to seek formal approval to this action and a specific recommendation is made to endorse the position.

5.5 The amount of the cash-backed PCL at 1st April was approximately £7.2m. However, this balance currently generates investment income which supports the revenue budget to the level of approximately £340,000 per annum.

6 Private Finance Initiative (PFI)

6.1 The Private Finance Initiative is used to encourage private sector investment in public sector projects. The basic criteria for PFI are value for money, open competition and an appropriate allocation of risks between the public and private sectors.

6.2 To date PFI funding for local government has been mainly targeted towards larger schemes or specific areas such as inner city regeneration or education. The City Council has in the past bid for PFI funding to provide for additional social housing but the bid was not successful.

6.3 Bidding for PFI funding is extremely time and resource consuming, would require the buying in of external expertise and resources and progressing a bid could only be achieved at the expense of other work with current resource levels. Further opportunities to bid for PFI funding will be kept under review.

7 Borrowing

7.1 The City Council repaid all long term debt in March 2002. New regulations in force from 1 April 2004 require that a major proportion of capital receipts from the sale of housing assets be paid over to a central government pool. Transitional arrangements apply for debt free authorities which provide some small, and reducing, benefit over the next three years from being debt free.

7.2 The City Council could move back into borrowing to fund the capital programme but as it still has substantial reserves and capital receipts it is not deemed prudent to do so at present as it has a negative capital financing requirement. Borrowing as a potential source of capital financing will be kept under review.

8 Projections

- 8.1 The six year capital programme detailed in the appendix to this report is based on the programme approved by Cabinet in July 2004 and new schemes subsequently approved by Cabinet. The funding provisions have been updated with the latest information available.

OTHER CONSIDERATIONS:

9 CORPORATE STRATEGY (RELEVANCE TO):

- 9.1 Preparation of the capital budget had regard to the corporate and capital strategies. Preparation and monitoring of the capital programme is an intrinsic part of continued clear financial and resource planning within the City Council.

10 RESOURCE IMPLICATIONS:

- 10.1 As discussed in the body of the report.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Department and other departments.

APPENDICES:

Appendix A Capital Programme for 2004/05 to 2009/10