

CABINET

17 JANUARY 2007

CAPITAL PROGRAMME 2006/07 TO 2011/12

REPORT OF DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB1269: Financial Strategy 2007/08 to 2011/12, 26 July, 2006

CAB1270: Capital Strategy and Programme 2006, 26 July, 2006

CAB1331: General Fund Budget 2007/08, 11 October, 2006

CAB1334: Corporate Strategy 2007-2012 – consultation draft, 12 October, 2006

CAB1336: Disposal of Vacant Council Dwellings, 15 November, 2006

CAB1353: General Fund Budget 2007/08 – Proposals for consultation, 15 November, 2006

EXECUTIVE SUMMARY:

This report provides an update on the capital programme for the period from 2006/07 to 2011/12. The programme for the current year has been revised and about £4.6m has been rescheduled for 2007/08. £2.8m of this relates to a contingency for purchase of property and £1m relates to the proposed outdoor sports centre at Bar End. Contributions received from developers linked to new affordable housing provision currently total £403,000 and a new provision has been included for this sum within the current year.

Capital growth bids of £2.8m, £2.2m and £1.7m have been identified for the General Fund for the next three years; with £1m pa for the HRA. A number of significant items are also noted where no financial provision has yet been made.

The main sources of funding for the current programme are from balances accumulated from capital receipts and from the Major Repairs Allowance. Proposed capital growth would be funded from new sources of capital receipts and from balances accumulated within the Major Investment Reserve. It will be necessary to consider borrowing later in the Strategy period for schemes not yet identified as the balances accumulated for the Programme are spent.

**RECOMMENDATIONS:**

1. That Cabinet approves the revised cash flow for schemes in the 2006/07 capital programme and notes the projected carry forward of £4.6m.
2. That Cabinet considers the capital growth bids and indicates which items should be included in the budget for consideration by Council in February.
3. That the Scheme of Delegation to Portfolio Holders be amended to permit the Portfolio Holder for Housing and Communities to authorise the commitment of developers contributions to support specific affordable housing schemes subject to available resources.

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### CAPITAL PROGRAMME 2006/07 TO 2011/12

#### REPORT OF DIRECTOR OF FINANCE

##### 1 Introduction

- 1.1 This report provides an update on the capital programme for the period from 2006/07 to 2011/12 and gives comment on the significant variations from the capital programme previously considered by Cabinet on 26 July and approved by Council on 2 November.
- 1.2 This report follows on from the annual capital strategy approved in July and the recent budget consultations and includes considerations by the officer Capital Programme and Assets Group (CPAG).
- 1.3 Although projections are provided for the medium term, there is inevitably more certainty and ability to plan in the nearer period, whilst the later years' forecasts are useful to identify ongoing and longer term commitments and plans, as the Council continues to develop medium term financial plans. Whilst some commitments have already been made, Members will wish to ensure the programme is actively managed in the light of changing priorities, additional receipts accruing and the Council's ability to afford investment in capital projects.
- 1.4 Further reports on individual schemes and projects will be brought to Cabinet or Portfolio Holders as appropriate to accord with Financial Procedure Rules before funds are committed.

##### 2 2006/07 and Other Changes

- 2.1 The programme for the current year has been revised and about £4.6m has been rescheduled for 2007/08. £2.8m of this relates to a contingency for purchase of property (details are contained within exempt report CAB1258, 13<sup>th</sup> April, 2006) and £1m relates to the proposed outdoor sports centre at Bar End.
- 2.2 Other funds rescheduled relate to the e-government programme, the offices relocation project and fees for the proposed new offices.
- 2.3 The Council has outstanding commitments on existing affordable housing schemes with partner associations of £850,000 with an agreement to meet these commitments once receipts are available. Contributions received from developers linked to new affordable housing provision currently total £403,000 and a new provision has been included for this sum within the current year. It is recommended that the Portfolio Holder for Housing and Communities be given delegated authority to agree the funding of specific schemes within the amounts set out in the programme.
- 2.4 The provision for re-roofing and associated works for the River Park Leisure Centre of £1m has been moved back in the programme from 2008/09 to 2011/12 to coincide with the end of the Council's contract with DC Leisure. Depending on the ongoing durability and longevity of the roof coverings it may be necessary to bring forward monies in the programme to carry out any remedial or repair works in the intervening period.

### 3 General Fund Growth Bids

- 3.1 Capital growth bids, which are set out in the budget consultation paper CAB1353, are reflected in the Appendices. More information is provided below:
- 3.2 Abbey Gardens public toilets (£150,000 in 2007/08): The refurbishment and improvement of the public conveniences in Abbey Grounds is proposed, incorporating all facilities into one location on the site and relocating the gardeners' facilities (see CAB1394 elsewhere on this agenda).
- 3.3 Abbey House: Abbey House was restored in the early 1980s and until this year only minor maintenance works have been undertaken since that time. Phase 1 of a programme of works is currently in progress at an estimated cost of £150,000. Phase 2 in 2008/09 at £200,000 is for fire precaution work on roof and wall voids with internal redecoration. Phase 3 is scheduled for 2009/10 for the renovation of the remaining part of the roof and remaining works.
- 3.4 Affordable Housing (£1.3m in 2007/08): Significant contributions are expected to be received from developers for new affordable housing provision in the coming year. An annual provision of £200,000 is made thereafter – actual spend will be dependent upon the contributions being received.
- 3.5 Affordable Housing (£1m pa): There is a proposal to use 100% of receipts from the disposal of up to 10 vacant dwellings per annum for re-investment in affordable housing). The proposal is to invest 50% of any such receipts in the development of new affordable homes. As with the previous item, spend will be dependent upon the receipts being achieved.
- 3.6 CCTV (£250,000 in 2008/09): Relocation of the control room and the purchase of new digital equipment are proposed.
- 3.7 Financial System (£150,000 in 2008/09): The Council's core financial system is reaching the end of its life and is unlikely to be maintained for much longer. An upgrade or replacement must be considered.
- 3.8 Knowle Community Building (£400,000 through 2007/09): This funding would enable the City Council to meet part of the cost of a new community building to serve the Knowle Community in partnership with Berkeley Homes, and, subject to their agreement, Wickham Parish Council. Local residents have already been extensively consulted about the proposal.
- 3.9 Meadowside Leisure Centre: There is a need to carry out works to resolve both environmental and health and safety issues at the centre and to restore the fabric to an acceptable and maintainable condition (£116,000 in 2007/08 - see CAB1348 elsewhere on this agenda). A further proposal to extend the Centre is included in 2009/10 (£300,000).
- 3.10 Rural transport (£50,000 pa): This will enable one-off funding to be provided to support innovative local solutions to improve accessibility and public transport in rural areas. The funding is intended to provide an incentive to local communities and/or voluntary organisations to promote projects which will be of lasting value.
- 3.11 Tower Street car park (£100,000 in 2008/09): Additional refurbishment work is proposed to improve the car park for health and safety, as well as operational, reasons.
- 3.12 There is a further item for Tower Street that has not been classified as growth but is commented on for completeness. Funding of £1m has been reallocated to meet part

of the Council's obligations to repair and improve the Tower Street car park under the terms of the lease from the County Council. This has been prioritised over the repairs to the Friarsgate car park for which the funding was originally included in the capital programme. Expenditure on Friarsgate will not be required if the Silver Hill scheme progresses and if it does not progress the scheme would nevertheless, need to be reappraised. A further £430,000 has been included in the programme to meet the balance of the cost of the works. Report CAB1344 (13<sup>th</sup> December, 2006) refers and Council will be considering the matter at its meeting on 10<sup>th</sup> January, 2007.

#### 4 General Fund Savings Proposal

- 4.1 There is one proposal for reducing capital expenditure – it is suggested that the budget for community capital grants is reduced from £100,000 pa to £80,000 pa from next year. This will have an impact on the amount of support that the Council is able to give to community groups for works of a capital nature.

#### 5 Housing Revenue Account (HRA) Growth Bids

- 5.1 The proposal to use 100% of receipts from the disposal of up to 10 vacant dwellings per annum for re-investment in affordable housing has been approved by Cabinet and is subject to final Council approval on the 10 January 2007 (CAB1336 dated 15 November 2006 refers). The proposal is to invest 50% of any such receipts in the development of new homes and 50% to meet a number of emerging issues that will impact on the Landlord Services Major Repairs, Renewals and Maintenance Strategy, to both achieve and maintain the Council's Decent Homes Plus Standard by 2010. Subject to appropriate properties becoming available and also subject to market values, it is estimated that the programme will generate £1 million per annum to reinvest in existing stock on key areas as follows:
- 5.2 An enhanced heating system replacement programme to address increasing obsolescence of existing systems (£250,000 pa).
- 5.3 Additional funding for the Aids and Adaptations programme to address the current backlog of £300,000 and increasing demand.
- 5.4 Replacing communal T V aerial systems to comply with the requirements of the Digital Switchover by 2012 (£100,000 pa - projected at a total cost of £450,000).
- 5.5 A replacement programme for existing garage sites (estimated at £50,000 every alternate year).
- 5.6 An enhanced replacement kitchen and bathroom programme to address increasing numbers beyond economic repair (currently projected at £200,000 pa).
- 5.7 Developing a small programme of loft conversions where appropriate to allow growing families to remain in their existing homes (£275,000 is included over the five year programme term).
- 5.8 Energy Efficiency works to replace solid fuel heating systems with more energy efficient type where possible and subject to tenant demand (£275,000 is included over the five year programme term).
- 5.9 Project Fees have been included to cover costs of works procurement (from inception to final account) at a 10% estimate of the programme cost.

## 6 Items Not Included

- 6.1 Capital Works Programme - as noted in previous reports, there is no forward programme for major (capital) repairs to Council owned buildings (other than for Council housing). However condition surveys are due to be carried out on a number of operational buildings throughout 2007 including Guildhall, Abbey House, Abbey Mill, River Park and Meadowside Leisure Centres, Chesil Street and The Brooks car parks and Bar End Depot. Reports on the procurement and outcome of these surveys will be brought to future Cabinet meetings.
- 6.2 Guildhall Community Facilities – there is provision within the programme for works to be funded from the Bapsy bequest but no provision is made for additional improvements to facilities that may be required as part of any scheme. It is likely that this project will be taken forward as part of the wider New Offices project.
- 6.3 Museums Storage Relocation – there is no provision for the costs of relocating the collection from Hyde Historic Resources Centre. Report CAB1366 (13<sup>th</sup> December, 2006) referred to substantial costs being likely.
- 6.4 New Offices – although there is provision for some initial fees in connection with this project the full costs are not provided for. At present work is in hand to draw up a detailed estimate of costs associated with this project, including maintenance costs for the existing offices if they are retained.
- 6.5 Silver Hill – any effect of the proposed redevelopment is not reflected in the figures (see exempt report CAB1391 elsewhere on this agenda).

## 7 Funding

- 7.1 The funding assumptions for the capital programme are provided in Appendix 1 with the sources briefly explained below:
- 7.2 *Capital Receipts.* This is one of the main sources of funding for capital expenditure over the period of the capital programme. Under government regulations up to 75% of capital receipts from Housing has been paid into a central pool since April 2004. There has been a transitional arrangement whereby the Council has claimed back a reducing proportion of pooled receipts for the three years to 2006/07 to support the provision of affordable housing in the District. The balance of receipts, before growth proposals, is projected to be nil by the end of the Strategy period, 2011/12. Thereafter only net receipts generated in-year, currently around £0.5m pa in the base, will be available for the programme. Capital receipts can be generated from the sale of surplus general fund properties and land and there is an assumption within the projections that receipts will be available from such sales. 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.
- 7.3 *Borrowing.* The Council repaid all long term debt in March 2002. It will be necessary to consider borrowing later in the Strategy period as the balances accumulated for the Programme are spent. Included in the current revenue projections is the loss of interest only through the use of balances for funding growth items; there is no provision for any capital repayment which will be necessary.
- 7.4 *Major Investment Reserve.* This is the principal reserve used for supporting the Budget; both Revenue and Capital. Although any deficit in the Revenue budget would have the first call on these funds, the financial strategy supports the use of this reserve to fund the capital programme. If all proposed capital growth is approved, and after making a small allowance for funding some proposed one-off revenue

growth, the balance on this reserve is projected to be almost depleted by the end of the Strategy period, 2011/12. There is an assumption that future revenue budgets will balance and that savings identified will be achieved - and that, in line with the Financial Strategy, there will be no call on this reserve to fund deficits in future years.

- 7.5 *Grants.* These are government grants awarded or expected towards forecast capital expenditure. Awards have been made for lottery funding, e-government and CCTV. Mandatory renovation grants also attract a capital grant of 60%.
- 7.6 *Earmarked Reserves.* There are various reserves earmarked for specific purposes available to fund the relevant elements of the capital programme e.g. the Bapsy Bequest, the Car Park Property Maintenance Reserve, the ICT Strategy Reserve and the Land Charges Computerisation Reserve.
- 7.7 *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.
- 7.8 *LABGI.* One-off funds may be available from the local authority business growth incentive (LABGI) scheme, although the current year's award has been used only for projects supporting economic development and local businesses. An announcement from the Government is expected at the beginning of February.
- 7.9 *Private Finance Initiative (PFI).* The Private Finance Initiative is used to encourage private sector investment in public sector projects and has been targeted mainly towards larger schemes such as inner city regeneration or education. The Council has bid in the past for PFI funding to provide for additional social housing but the bid was not successful. Bidding is extremely time and resource consuming and would require the buying in of external expertise and resources. It may be appropriate to consider this as a method of funding for the New City Offices project.
- 7.10 *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.

## 8 Prudential Code

- 8.1 The prudential framework for local authority capital investment was introduced in the Local Government Act 2003. 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.
- 8.2 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.

## 9 OTHER CONSIDERATIONS:

### 10 Corporate Strategy (Relevance To):

- 10.1 The capital programme has been developed to support the delivery of the Council's corporate strategy. The updated baseline together with capital growth bids is presented here for consideration against the Council's current corporate strategy and priorities.

### 11 Resource Implications:

- 11.1 Funding for the various schemes within the capital programme is identified in the appendices. Much of the funding comes from capital receipts and the Major Investment Reserve where balances have been accumulated specifically to continue with a high level of capital spend over the next few years. As these balances are depleted alternative sources of funding will have to be identified. This is most likely to be through borrowing. The impact of loss of investment interest on the funding used for the proposed growth has been taken account of in the revenue projections. Borrowing will incur interest charges and will also require the principal from loans to be repaid from the revenue account.
- 11.2 Generally, there are sufficient internal resources to ensure that the capital programme can be delivered. Where this is not the case details will be included in specific reports on each project.
- 12 Tact Comment (on the HRA element of the report)
- 12.1 TACT have very little to add in way of comment to this report. We have already made our feelings known in papers CAB1336 and CAB1369, however TACT say once again the tenants of Winchester City Council have had the thumb screws applied by Central Government. As indeed have the Council, in order to survive and maintain our council homes, up until 2010 the Council has to innovate and come up with new ways to keep going.
- 12.2 This will be a testing time for TACT, as mentioned before we only see selling between 5 to 10 Council homes a year as a short term policy it gets the Council out of a hole.
- 12.3 The Council should be challenging Central Government regarding the 40% subsidy we have to pay them out of the HRA. TACT would only be pleased to support you in this action.
- 12.4 If the Government turns the thumb screws further, TACT may be forced to consider other ways of getting our plight over to a wider audience, for time is ticking by.
- 12.5 We realise it is not easy for the Council either, but tenants have more to lose in the long run, TACT appreciate that the Council are seeking ways to keep themselves as our landlord, and to maintain services to the standards required, even if we cannot agree fully with the methods that have been put into practice to achieve them. I can only suggest you watch this space so to speak, for we won't go without a fight. TACT however look forward to your support, thank you.

BACKGROUND DOCUMENTS:

Operational and financial records held in the Finance Directorate and other Divisions.

APPENDICES:

Appendix A: Capital Programme 2006/07 to 2011/12

Appendix B: E-Government Capital Programme 2006/07 to 2011/12

Appendix C: Capital Growth and Savings Proposals

Appendix D: Capital Programme Financing

Appendix E: Major Investment Reserve and Capital Receipts Balances



**CAPITAL PROGRAMME - FINANCING**

<b>BASELINE PROGRAMME FINANCING</b>	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Major repairs Allowance	3,259	3,326	3,326	3,326	3,326	3,326
Capital Grant (SCG)	287	270	270	270	270	270
DEFRA grant	50	52	0	0	0	0
Developers contributions	403	0	0	0	0	0
Car Park Property Reserve	225	755	0	0	0	0
ICT Strategy Reserve	575	328	0	0	0	0
Open Space Provision Reserve	160	1,090	200	100	100	100
Bapsy Bequest	75	500	500	0	0	0
General Fund Property Reserve	108	0	0	0	0	0
Capital Receipts for General Fund	6,873	5,851	1,560	1,030	2,060	741
Capital Receipts for HRA	417	200	200	200	200	200
Winchester Town - Cemeteries	5	25	0	0	0	0
Other Reserves	65	50	0	0	0	0
Major Investment Reserve	0	654	0	0	0	169
<b>Total</b>	<b>12,502</b>	<b>13,101</b>	<b>6,056</b>	<b>4,926</b>	<b>5,956</b>	<b>4,806</b>

<b>PROPOSED CAPITAL GROWTH &amp; SAVINGS FINANCING</b>	<b>2006/07 £000</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>
Affordable Housing - Developers contributions		1,300	200	200	200	200
Capital Receipts (disposal of dwellings)		2,000	2,000	2,000	2,000	2,000
Major Investment Reserve		496	930	520	30	30
<b>Total</b>	<b>0</b>	<b>3,796</b>	<b>3,130</b>	<b>2,720</b>	<b>2,230</b>	<b>2,230</b>

**MAJOR INVESTMENT RESERVE AND CAPITAL RECEIPTS**

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
<b><u>MAJOR INVESTMENT RESERVE</u></b>						
Balance B/F	(5,012)					
Approved contributions to Revenue	912	150	0	0	0	0
Financing of Capital Programme	0	654	0	0	0	169
<b>Total before growth and savings items</b>	<b>(4,100)</b>	<b>(3,296)</b>	<b>(3,296)</b>	<b>(3,296)</b>	<b>(3,296)</b>	<b>(3,127)</b>
Proposed Financing of Revenue Growth (CAB1353)		225	70	5	5	20
Proposed Financing of Capital Growth (net of savings)		496	930	520	30	30
Revenue cost of financing net growth (at 5%)		18	61	99	113	115
<b>Projected total after growth and savings items</b>	<b>(4,100)</b>	<b>(2,575)</b>	<b>(1,514)</b>	<b>(890)</b>	<b>(742)</b>	<b>(408)</b>
<b><u>CAPITAL RECEIPTS</u></b>						
Balance B/F	(12,677)					
Asset Sales (RTB)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Asset Sales (Other HRA)	(500)	0	0	0	0	0
Pooling	1,500	1,500	1,500	1,500	1,500	1,500
Pooling transition	(375)	0	0	0	0	0
Asset Sales (Other)	(430)	(1,950)	(150)	(150)	(150)	(150)
Financing of Capital Programme	7,290	6,051	1,760	1,230	2,260	941
<b>Total before growth items</b>	<b>(7,192)</b>	<b>(3,591)</b>	<b>(2,481)</b>	<b>(1,901)</b>	<b>(291)</b>	<b>0</b>
Proposed Capital Receipts		(3,300)	(2,200)	(2,200)	(2,200)	(2,200)
Proposed Financing of Capital Growth		3,300	2,200	2,200	2,200	2,200
<b>Projected total after growth items</b>	<b>(7,192)</b>	<b>(3,591)</b>	<b>(2,481)</b>	<b>(1,901)</b>	<b>(291)</b>	<b>0</b>
<b>[Total MIR and Capital Receipts before growth and savings]</b>	<b>(11,292)</b>	<b>(6,887)</b>	<b>(5,777)</b>	<b>(5,197)</b>	<b>(3,587)</b>	<b>(3,127)</b>
<b>[Total MIR and Capital Receipts after growth and savings]</b>	<b>(11,292)</b>	<b>(6,166)</b>	<b>(3,995)</b>	<b>(2,791)</b>	<b>(1,033)</b>	<b>(408)</b>