

CABINET

13 FEBRUARY 2013

THE OVERVIEW & SCRUTINY COMMITTEE

18 FEBRUARY 2012

CAPITAL PROGRAMME 2012/13 TO 2015/16

REPORT OF HEAD OF FINANCE

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RECENT REFERENCES:

CAB2445 (HSG): Housing Revenue Account 2013/14 and Business Plan for 2013/14, 30 January 2013

CAB2378: Capital Strategy & Programme 2012/13 - 2015/16, 12 September 2012

CAB2283: Capital Programme 2011/12 to 2014/15, 18 January 2012

EXECUTIVE SUMMARY:

This report presents the proposed Capital Programme for the period 2012/13 to 2015/16 for consideration.

The changes from the Capital Programme as approved by the Council in September 2012 are identified in bold at Appendix A; the proposed financing is shown at Appendix B, and the forecast of the Usable Capital Receipts Reserve is provided at Appendix C.

There is a substantial increase in the amount of unfinanced expenditure being proposed which will impact on the Council's borrowing requirements. It is also assumed that borrowing will be self-funding in that the financial benefits will outweigh the costs, and have no net impact on the revenue account. Before any spending is committed it will be essential that a full financial appraisal is undertaken on a whole life costing basis.

The consultant's report for the future options of the River Park Leisure Centre is awaited and so only the minimum spending requirements have been reflected at this stage. Based on current forecasts for capital receipts, not all of this can be financed and it is assumed in the forecasts that some costs will remain unfinanced; which will create a charge for Minimum Revenue Provision against the Useable General Fund Balance. The consequences of this are reflected in the Treasury Management Report being considered elsewhere on this agenda.

There are also changes proposed to the Council's policy on the allocation of useable capital receipts arising from voluntary Housing Revenue Account (HRA) asset disposals following the implementation of Housing Finance Reform.

RECOMMENDATIONS:

That Cabinet:

1. Approves the proposed capital programme for 2012/13 to 2015/16 (Appendix A) to be included in the Budget for consideration by Council in February and, notes the proposed financing of the programme, (also noting that individual schemes within the Capital Programme each require appropriate approval by Cabinet or under the scheme of delegation involving Portfolio Holders in accordance with Financial Procedure Rules before any funds are committed).
2. Approves a change in the Council's policy on the allocation of useable capital receipts arising from voluntary HRA asset disposals so that all such receipts are now retained by the HRA (ref. para 4.4).

That Overview & Scrutiny Committee:

1. That Overview & Scrutiny Committee considers any recommendations it wishes to make to the Council for its consideration of the Council's proposed capital programme.

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1 Introduction

1.1 Cabinet considered the Capital Strategy and Programme (CAB2378) in September 2012, and this was approved by the Council on 27 September 2012.

1.2 The Programme has been reviewed and updated in respect of both; projects in progress, and new requirements identified. Appendix A provides the proposed capital programme for the current and the next 3 years. Changes are identified in bold text.

1.3 The associated financing is provided at Appendix B and the forecast Capital Receipts Reserve at Appendix C.

1.4 More detail on the Housing Revenue Account capital expenditure is included in the report to Cabinet Housing Committee in January (CAB2445 refers).

2 Prudential Code

2.1 The Council has adopted the CIPFA Prudential Code which is designed to ensure that capital investment plans of local authorities are affordable, prudent and sustainable, and due regard must be given to the Prudential Code in determining the Council's capital programme.

2.2 It should be noted that the proposed programme produces a substantial increase in the forecast Capital Financing Requirement and consequential borrowing. The implications of this, and the effect on the Prudential Indicators, are considered further in the Treasury Management Strategy report elsewhere on this agenda.

3 Funding

3.1 The financing assumptions for the proposed capital programme are provided in Appendix B.

3.2 This identifies unfunded spending creating additional Capital Financing Requirements, which will, at some point, lead to external borrowing. The CFR has been matched against specific assets (as identified in Appendix A). These are generally those assets for which the financial appraisal is expected

to demonstrate value for money in terms that the financial benefits outweigh the financing costs (including the Minimum Revenue Provision).

- 3.3 There is a substantial increase in the amount of unfinanced expenditure being proposed. Before any spending is committed it will be essential that a full financial appraisal is undertaken on a whole life costing basis and that such projects are monitored to manage the risks that the assumed financial benefits are not actually achieved, and if necessary take compensating action.

4 Usable Capital Receipts

- 4.1 Appendix C provides a forecast of the Capital Receipts Reserve, reflecting the proposed capital programme.
- 4.2 This reflects the changes to the treatment of Right to Buy Receipts which were approved by the Cabinet in September 2012 (CAB2378).
- 4.3 The programme for asset sales remains under review although there is limited opportunity for sales in the current economic climate.
- 4.4 The current policy on the allocation of voluntary ie, non Right-To-Buy, HRA asset sales is that 50% is allocated to the HRA and 50% allocated to the Affordable Housing programme within the General Fund. This policy predates HRA self-financing and the establishment of the new build programme within the HRA. These changes mean that the main focus for the use of the Council's own resources for delivering new affordable housing is the Council's own new build programme funded from the HRA. It therefore logically follows that all capital receipts arising from voluntary HRA asset sales should be retained in the HRA. It is therefore recommended that the Council's policy is changed to reflect this.

5 River Park Leisure Centre

- 5.1 A review of options for the River Park Leisure Centre has been commissioned but unfortunately the report will not be received until after the budget has been set. Therefore the proposed capital programme includes the minimum amount that was previously identified for urgent works. This is assumed at this point to be partly unfinanced although a full financial appraisal of options will be required before any commitments are made.

6 Approval of Capital Schemes

- 6.1 Individual schemes within the Capital Programme each require appropriate approval by Cabinet or under the scheme of delegation involving Portfolio Holders in accordance with Financial Procedure Rules before any funds are committed.

OTHER CONSIDERATIONS:

7 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS
(RELEVANCE TO)

7.1 The investment of capital resources will contribute to the achievement of the Council's key objectives and priorities in the Sustainable Community Strategy and Change Plans. The proposed capital programme is presented for consideration against these priorities.

8 RESOURCE IMPLICATIONS:

8.1 Financing for the various schemes within the capital programme is identified in the appendices. Historically, much of the financing has come from capital receipts, the Major Investment Reserve, and earmarked reserves where balances were accumulated specifically to support major projects. Capital Receipts have been affected by the downturn in the economy and reserves have been depleted over recent years making it necessary for the Council to consider borrowing to finance its capital requirements.

8.2 The Government has made borrowing available to the Council (along with other local authorities providing information on their capital expenditure and borrowing plans) at a discount of 20 basis points from the Public Works Loan Board, for the period to 31 October 2013, although it is thought likely that this "certainty rate" may also be available in future years.

8.3 The effect of the proposed Capital Programme on the Revenue Budget and the Prudential Indicators is reflected in the relevant reports to be considered elsewhere on this agenda.

8.4 Delivery of the capital programme also relies on the availability of sufficient internal resources to deliver it. Where this is not the case details will be included in specific reports on each project.

9 RISK MANAGEMENT ISSUES

9.1 There are various risks inherent in the delivery of the individual capital schemes, the most obvious being time and cost overruns. Project management of the individual schemes is meant to ensure that these are mitigated.

9.2 Changes to the timing of expenditure will affect cash flow, interest income and borrowing costs and also the delivery of the benefits to be achieved from the capital expenditure.

9.3 There is monthly monitoring and reporting of the capital programme but this will need to be developed as the financial risks are increasing.

9.4 Robust financial appraisal of capital projects will be essential to support future spending decisions.

- 9.5 The Major Investment Reserve (MIR) 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. The increasing risks of shortfalls in the future Revenue budgets mean that less of the MIR may be available to support capital projects.

BACKGROUND DOCUMENTS

None

APPENDICES:

Appendix A: Proposed Capital Programme 2012/13 to 2015/16

Appendix B: Proposed Capital Programme Financing

Appendix C: Forecast Movement in Usable Capital Receipts Reserves

PROPOSED CAPITAL PROGRAMME 2012/13 TO 2015/16									COMMENTS
	Funding *	2012/13			2013/14	2014/15	2015/16	TOTAL	
		CAB2378	Adjustment / Virement/ Growth or (Saving)	TOTAL					
		£000			£000	£000	£000	£000	
GENERAL FUND									
ACTIVE COMMUNITIES									
Affordable Housing / Regeneration	CR - H	211	(148)	63	148			211	
Affordable Hsg funded by Developers' contributions	EF	991	(962)	29	1,441	-		1,470	
Capital Grants	MIR	75		75	-	-		75	Relates to capital grants that have been offered and not yet claimed.
Changing Pavilions (Town A/C)	EF / ER	57	(57)	-	57	51	54	162	Slipped - under review by Town Forum
Disabled Facility Grants	EF / CR	647		647	500	500	500	2,147	An additional £61,787 DFG was received in Dec. 2012, making the total grant funding this year £440k.
North Winchester Youth & Community Action	MIR	300	(300)	-	-	-		0	Funding released pending submission of business plan
River Park Leisure Centre - Essential Repairs	CR	20		20	-	-		20	2012/13 expenditure
River Park Leisure Centre - Essential Repairs	CR/CFR			-	950	3,250		4,200	Roof and works (as identified in CAB2283). Subject to completion of feasibility study on potential new facility
Jubilee Event Space	MIR/RCC			-	20			20	Approved by Cabinet January 2013 (CAB2431).
		2,301	(1,467)	834	3,116	3,801	554	8,305	
PROSPEROUS ECONOMY									
Enterprise Centre managed workspace	CFR				1,000	5,000		6,000	Proposal subject to feasibility study and Financial Appraisal
Winchester Cathedral Roof	MIR				25	25	25	75	Proposal to allocate £100,000 in total over 4 years.
		-	-	-	1,025	5,025	25	6,075	
HIGH QUALITY ENVIRONMENT									
Car Parks	ER	267	(60)	207	225	120	180	732	Reflects updated programme being considered elsewhere on this agenda (CAB2450).
Footway Lighting at North Walls (Town A/C)	ER (Town)	45	(5)	40	-	-		40	
Great Minster Street	MIR	60	(60)	-	60	-		60	Completion of works (and WCC contribution to costs) expected to be in next financial year.
High Speed Broadband for Hampshire	MIR	46	(46)	0	46	46	46	139	Project start delayed and contributions slipped by a year.
Hockley Viaduct	CR/MIR/EF	957	3	960	-	-		960	Project completion expected in 2012/13.
Magdalen Hill Cemetery - Extension	MIR (Town)	135	(135)	-	135	-		135	
Market Lane Toilet Works	CR	45	(45)	-	45	-		45	
Wickham Toilet Works	ER	50	(50)	-	50	-		50	
Open Space & Recreation Facilities	EF	60		60	45	25	40	170	
River Itchen Maintenance	CR / CR - H	60		60	40	75		175	PHD461 refers to the approval of spend for Phase 1 in 2012/13.
Wet Shelter	ER	-		-	-	50		50	Dependent on viable scheme
Winchester High Street / Square	MIR	18	(12)	6	-	-		6	Virement to Jubilee Event Space (above)
Winnall Moors Project	MIR	10		10	-	-		10	
		1,753	(410)	1,343	646	316	266	2,572	
EFFICIENT & EFFECTIVE									
ASSET MANAGEMENT									
Abbey Gardens - environmental improvements	CR/ER				75	150		225	Restoration to the railings, gates & river walls and other environmental improvements (CAB1559, para 2.8)
Abbey House	ER	66	(56)	10	77	-		87	Majority of expenditure will be incurred in the next financial year.

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		CAB2378	Adjustment / Virement/ Growth or (Saving)	TOTAL					
		£000			£000	£000	£000	£000	
Abbey House - Thermal Upgrading	RCC	21	(21)	-	-	-	-	0	<p>Combined with Abbey House - above Planning application in progress - main expenditure slipped to next year. Possible requirement to undertake fit out - which would be rentalised. Proposal would also have revenue savings implications</p> <p>Increased estimate of costs including possible tenants fit out.</p> <p>Essential works to be funded from the Property Repairs and Renewals reserve</p> <p>Expected to be completed this year.</p> <p>Budget provision slipped back a year.</p> <p>Increase in total from £1,916k reflecting latest estimate</p> <p>Forecast underspend to be vired to Guildhall toilets</p> <p>Slipped to next year and increased by virement of £18k</p> <p>Completed</p> <p>To support Asset Management actions in the Change Plans.</p> <p>Approved in December 2012 (PHD445)</p> <p>Provision for Doctors' surgery, car park etc</p> <p>Traffic management/ public realm improvements</p>
Abbey Mill	ER / CFR	830	(737)	93	737	-	-	830	
Abbey Mill - Tenants costs	CFR	-	-	-	500	-	-	500	
Abbey Mill - hydro	ER	-	-	-	150	-	-	150	
Archaeological Storage Facility	CFR	600	(600)	-	600	-	-	600	
Asset Management Plans	RCC	159	(61)	98	-	-	30	128	
Avalon House	CFR	696	(696)	-	1,500	-	-	1,500	
2-3 Bridge St	ER	-	-	-	-	100	-	100	
Car Parking Server / Pay on Foot	MIR	139	-	139	-	-	-	139	
City Offices & Annexe Works	ER / CR	332	(332)	-	332	70	170	572	
Depot	CFR	1,916	(980)	936	1,108	-	-	2,044	
Guildhall staff office to changing rooms	CR	50	(17)	33	-	-	-	33	
Guildhall Toilets	CR	50	(50)	-	67	-	-	67	
Hyde	CFR	644	-	644	-	-	-	644	
Old Chesil Rectory	CR	38	-	38	-	-	-	38	
Property Acquisition & Development	CFR	4,703	(3,703)	1,000	4,500	4,500	-	10,000	
- 34a Lower Brook Street	CFR	-	123	123	-	-	-	123	
Silver Hill associated development	CFR	-	-	-	3,000	4,000	-	7,000	
West Wing Lift	RCC	-	-	-	20	-	-	20	
West Wing / City Offices Heating Works	ER	50	-	50	-	-	-	50	
Winchester Town Access Plan	ER	-	-	-	150	-	-	150	
Total AMP		10,294	(7,130)	3,164	12,816	8,820	200	25,000	
IMT ASSET MANAGEMENT									
ICT E-govt	CR	15	-	15	-	-	-	15	
ICT Equipment	CR / ER	105	-	105	60	60	60	285	
ICT EDRMS	MIR	98	-	98	-	-	-	98	
ICT Hardware	MIR	159	-	159	55	5	-	219	
ICT Infrastructure	MIR / ER	100	10	110	109	-	7	226	
ICT Software	MIR	47	65	112	130	16	-	258	
ICT Telephony	MIR	115	-	115	-	-	-	115	
Total IMT		639	75	714	354	81	67	1,216	
Total General Fund		14,987	(8,932)	6,055	17,957	18,043	1,112	43,168	
HOUSING REVENUE ACCOUNT									

PROPOSED CAPITAL PROGRAMME 2012/13 TO 2015/16									COMMENTS
	Funding *	2012/13			2013/14	2014/15	2015/16	TOTAL	
		CAB2378	Adjustment / Virement/ Growth or (Saving)	TOTAL					
		£000			£000	£000	£000	£000	
ACTIVE COMMUNITIES									
Major repairs		5,750	220	5,970	6,530	6,613	6,765	25,878	
Re-investment in stock condition		-		-				0	
New Build		3,200	(2,543)	657	4,294	5,500	4,847	15,298	
Sheltered Housing Improvements		200	60	260	200	203	208	871	
Estate Improvements		550		550	250	254	260	1,314	
Loft Conversions				-	200	203	208	611	
Disabled Adaptations		800	(190)	610	700	711	728	2,749	
Orchard Upgrade	ER	40		40	-	-		40	
Asset Management Solution	ER	51		51	-	-		51	
Sewage Treatment Works	ER	100	(32)	68	100	103	105	376	
Harris Bequest	EF	<i>Amount from bequest to be determined (ring fenced for housing)</i>							
Total Housing Revenue Account		10,691	(2,485)	8,206	12,274	13,587	13,121	47,188	
Grand Total		25,678	(11,417)	14,261	30,231	31,630	14,233	90,356	

* Key - Funding

Capital Financing Requirement	CFR
Capital Receipts	CR
Capital Receipts - Housing	CR - H
Earmarked Reserves	ER
External Funding	EF
Major Investment Reserve	MIR
Revenue Contribution to Capital	RCC
Rechargeable to the Town A/C	MIR (Town)

CAPITAL PROGRAMME FINANCING						
		2012/13	2013/14	2014/15	2015/16	Total
		<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
General Fund						
EXTERNALLY FUNDED						
Government Grants		65				65
Capital Grant (DFG)	CG	440	378	378	378	1,574
Total Government grants		505	378	378	378	1,639
External contributions						
Developers' contributions	DC	29	1,441	-		1,470
Hockley Viaduct		487	-	-		487
Open Space Fund	OS	60	58	38	65	221
Total External Contributions		576	1,499	38	65	2,178
TOTAL EXTERNALLY FUNDED		1,081	1,877	416	443	3,817
Earmarked Reserves						
Car Park Property	ER	207	225	120	180	732
ICT Strategy	ER	60	169	60	67	356
Property Repairs & Renewals	ER	170	789	200	200	1,359
Homelessness Prevention	ER			50		50
Winchester Town	WTA	40	44	38	29	151
Total Earmarked Reserves	ER	477	1,227	468	476	2,648
Capital Receipts Excluding Housing	CR	746	1,474	937	122	3,279
Capital Financing Requirement	CFR	2,784	12,945	16,100	-	31,829
Major Investment Reserve	MIR	905	286	87	71	1,350
Total General Fund excluding Housing		5,992	17,809	18,008	1,112	42,922
Housing						
Revenue Contribution to Capital	RCC	7,847	11,757	13,527	13,035	46,166
Capital Receipts	CR - H	422	665	95	86	1,268
Housing Revenue Account	HRA					-
Total Housing Revenue Account		8,269	12,422	13,622	13,121	47,434
Total Financing of Capital Programme		14,261	30,231	31,630	14,233	90,356

USABLE CAPITAL RECEIPTS RESERVE				
General Fund	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000
<u>USABLE CAPITAL RECEIPTS RESERVE (General Fund)</u>				
Opening Balance b/fwd	2,202	1,802	672	50
Asset Sales (RTB)	306	344	315	315
Asset Sales (Other)	40	0	0	0
Financing of Proposed Capital Programme	(746)	(1,474)	(937)	(122)
Closing Balance c/fwd	1,802	672	50	243
<u>USABLE CAPITAL RECEIPTS RESERVE (HRA)</u>				
<u>USABLE CAPITAL RECEIPTS RESERVE (HRA)</u>				
Housing Revenue Account	2012/13	2013/14	2014/15	2014/15
	£000	£000	£000	£000
Opening Balance b/fwd	0	494	20	20
Asset Sales (RTB) HRA Attributable Debt	888	191	95	86
Asset Sales (Other HRA)	28	0	0	0
Financing of Proposed Capital Programme	(422)	(665)	(95)	(86)
Closing Balance c/fwd	494	20	20	20