

EAST HERTS COUNCIL

JOINT SCRUTINY COMMITTEE – 17 JANUARY 2012
EXECUTIVE – 7 FEBRUARY 2012

REPORT BY EXECUTIVE MEMBER FOR FINANCE

CAPITAL PROGRAMME 2011/12 (REVISED) TO 2014/15

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The report sets out proposals for the Council's capital Programme for the period 2011/12 (Revised) to 2014/15.

<u>RECOMMENDATION FOR : MEETING OF JOINT SCRUTINY COMMITTEES</u>	
(A)	That the draft Capital Programme 2011/12 (Revised) to 2014/15 (as amended by the proposals set out in paragraph 2.4) be scrutinised, and
(B)	The following comments be submitted to the Executive.
<u>RECOMMENDATION FOR : EXECUTIVE</u>	
(A)	That any comments made by the Meeting of Joint Scrutiny Committees on 17 January 2012 be considered, and
(B)	That the new Capital Programme for the period 2011/12 (Revised) to 2014/15 (as amended by the proposals set out in paragraph 2.4) be recommended to Council.

1.0 Background

1.1 The capital programme approved by the Council in February 2011 has subsequently been updated and amended initially by items of slippage and other re-phrasings following the 2010/11 Capital Out-turn position.

- 1.2 A number of further amendments to the Programme have since been approved through the Council's monthly Health check process.
- 1.3 In line with current annual budgetary processes a complete review of the current programme has been undertaken and a new draft programme is now proposed for the period 2011/12 (Revised) to 2014/15. Lead officers have submitted proposals for new schemes to be included within the Programme. The Council's latest approved Financial Strategy Statement places a £1m ceiling (for planning purposes) on the 2014/15 programme for projects to be funded from the Council's available capital resources. Further projects can be included where external contributions are anticipated. Investment requirements linked to invest to save schemes have also been encouraged and identified through the MTFP process.

2.0 Report

- 2.1 As a medium term Investment Plan, the Programme will continue to be developed in response to the Council's priorities set out in changing strategies and service plans.
- 2.2 The Draft Programme is attached at **Essential Reference Paper 'B'**. The Programme is presented with various detailed schemes having been combined which will continue to facilitate the overall management of resources. CMT will continue to manage projects at an individual level. Following the approach adopted in the last two years, the aggregate of proposed spend on individual schemes has again been adjusted by a provision for slippage to produce a programme total against which total spending will be performance managed. The adjusted figures have been assumed for estimating the financing implications within the MTFP.
- 2.3 The Executive will note that the revised budget for the current year of £7.045m reflects an increase of £484k compared to the "current approved" position of £6.561m (as adjusted) being reported through the Health check report (November position). Improved performance in the delivery of the programme has resulted in the projected spend exceeding the adjusted planning spend total.

2.4 With the exception of support for affordable housing existing rolling programmes of work have been presented as continuing up to 2014/15. These programmes provide funding in areas such as private sector renovation grants, the provision of play equipment, various community grant funding streams, information technology upgrades as well as various environmental initiatives. For 2014/15 officers have proposed that the budget for affordable housing be deleted. Alternative mechanisms to support social housing, including the use of section 106 monies, will need to offset this budget cut. Members will see that it will be necessary to reduce the call on capital resources by a further £645k in order to limit the programme to the £1m ceiling (to be met from the Council's own resources) referred to in paragraph 1.3 above. This assumes that external funding, through Government grant of £100k will be available in 2014/15. Recent Member consultations have been carried out in respect of the following proposals to substantially achieve this position;

	£'s	£'s
A 25% reduction in budgets for private sector housing grants		205,000
Deletion of community grant schemes;		
Capital grants	83,000	
Community planning grants	20,000	
Village hall community challenge	11,000	
Partnership Investment Fund	<u>26,000</u>	140,000
Town centre enhancements		<u>100,000</u>
Proposed reduction to 14/15 programme		445,000
Capitalised salaries to be funded from revenue rather than capital resources		188,600
Total reduction in use of capital resources		633,600

2.5 The Draft Programme at **Essential Reference Paper 'B'**, includes proposals for a number of new schemes. These total just over £1.48m and are shown in bold typeface and summarised separately for ease of reference. A budget of £1m is included in respect of a local mortgage guarantee scheme. This funding will be returned as a capital receipt at the end of the guarantee period. The remaining new items relate to IT projects, work in support of the Council's Asset Management Plan and an invest to

save scheme for the provision of gym equipment under the Council's leisure contract.

The proposed new schemes have been scrutinised in detail by the Corporate Management Team to ensure that projects are aligned to the Council's corporate priorities and that the phasing of the projects is appropriate having regard to available resources and project lead in times.

The Executive will be aware that in 2009 the Council's Corporate Business Scrutiny Committee supported a proposal that officers should have regard to a Government guidance document on "optimism bias" when formulating proposals for new schemes. Officers have again been requested to specifically consider this guidance in relation to the timescales anticipated for the delivery of projects.

This approach aims to achieve an Improvement in performance in delivering the planned programme and the current year's projected outturn appears to demonstrate a positive impact.

Members should note that, due to accounting requirements for asset valuations, the capital expenditure incurred will not necessarily result in an equivalent increase to the value of the Council's assets (as will be reflected in the year end accounts). An example of this will be the expenditure incurred on the Wallfields office contract. A full business case for this project was agreed by Council.

Expenditure will often extend the operational life of assets or facilitate or enhance an assets use in meeting the operational service needs.

2.6 Resources / Long Term Strategy

2.7 It is intended that some 43% of the proposed Programme will be funded from available Capital Receipts. Specific Government Grants (reflecting a reduced trend in line with last year's CSR) are anticipated in respect of Housing grant schemes as well as funding from a number of third party "partner" contributions.

2.8 Available capital receipts arising from the 2002 LSVT of the Council's housing stock are currently assumed to continue although any impact arising from the government's future housing strategy will need to be monitored. Together with receipts arising

from the disposal of surplus assets an estimated £3.0m is anticipated over the duration of the programme.

2.9 A net receipt of £2.35m was received in October 2011 relating to the Bishop's Stortford property transactions. This receipt was accrued in the 2009/10 accounts and is therefore reflected in the 1 April 2011 balance shown below.

2.10 A breakdown of the new receipts anticipated is shown at **Essential Reference paper 'C'** (Confidential paper attached for Members only).

2.11 Resources

	£000's	£000's
Usable receipts 1 April 2011	3,721	
Estimated new receipts to 31 March 2015	<u>2,995</u>	6,716
Government grants	603	
Third party contributions	320	
Revenue contribution (including £189k for capitalised salaries in 2014/15)	<u>289</u>	<u>1,212</u>
Total Estimated Resources		7,928
Capital Programme presented	15,960	
Less proposed reduction	<u>445</u>	<u>15,515</u>
Estimated internal borrowing (disinvestment)		7,587

2.12 Members will note that the Programme will require the Council to Undertake "internal" borrowing in order to fund the programme. This will likely be needed from towards the end of the current financial year. The Council has received advice that it may apply internal borrowing until such time as its currently negative Capital Financing Requirement is reduced to nil.

2.13 Prudential Code

The Executive will be aware that a prudential framework for local authority capital investment was introduced through the Local Government Act 2003.

A number of statutory prudential indicators which relate to the Capital Programme are required to be approved annually by the Council. These are included as part of the overall Treasury Management Report which appears separately on the agenda.

It is considered that the proposed Programme is affordable and sustainable in terms of capital resource requirements and revenue impact. Financial implications are reflected within the Council's Medium Term Financial Plan (MTFP).

3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Report to Executive 5 July 2011

Reports to CMT on 29 November & 13 December 2011

Project Initiation Documents

Contact Member: Councillor Michael Tindale – Executive Member for Finance

Contact Officer: Alan Madin – Director of Internal Services – Contact Tel Ext No 1401

Report Author: Simon Chancellor – Head of Financial Support Services

ESSENTIAL REFERENCE PAPER 'A'

<p>Contribution to the Council's Corporate Priorities/ Objectives <i>(delete as appropriate):</i></p>	<p>Promoting prosperity and well-being; providing access and opportunities <i>Enhance the quality of life, health and wellbeing of individuals, families and communities, particularly those who are vulnerable.</i></p> <p>Fit for purpose, services fit for you <i>Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.</i></p> <p>Pride in East Herts <i>Improving standards of the built neighbourhood and environmental management in our towns and villages.</i></p> <p>Shaping now, shaping the future <i>Safeguard and enhance our unique mix of rural and urban communities, ensuring sustainable, economic and social opportunities including the continuation of effective development control and other measures.</i></p> <p>Leading the way, working together <i>Deliver responsible community leadership that engages with our partners and the public.</i></p>
<p>Consultation:</p>	<p>The draft Programme has been prepared in conjunction with Project control officers, Heads of Service and reviewed by the Corporate Management Team</p>
<p>Legal:</p>	<p>None</p>
<p>Financial:</p>	<p>As set out within the report</p>
<p>Human Resource:</p>	<p>Staff resources will need to be available in order to manage the delivery of the Programme</p>
<p>Risk Management:</p>	<p>It is considered that there is some risk in capital resource terms although assumptions around asset disposals are considered to be prudent. Future year's assumptions around levels of Government grant are subject to future announcements. The Council will have the option of undertaking Prudential borrowing when required. From a service perspective there are risks around the delivery of certain schemes within the timescales anticipated as certain issues are not directly within the control of this Council.</p>