REPORT TO THE EXECUTIVE

Report No. 10

Date of Meeting	**14 December 2006**
Title of Report	**Budget 2007/08 and 2008/10 Forecast - Capital**
Portfolio	**Leader's Responsibilities**
Link to Corporate Priorities	All
Key Decision	Yes
Executive Workplan Ref	A2
Public Report	Yes

Summary of Report

To bring before the Executive the latest information concerning the strategy and choices of the proposed 2007-08 capital budget and following two year's forecasts.

Officer Recommendations

That the Executive agree,

1. The £212k resources, now available from 2006-07 programme;

2 . The spend to save criteria (see Annex 1);

3 The capital strategy (see Annex 1);

4 The draft revised capital programme for 2007-10, for consultation (see Annex 2);

5 The consultation process, the results of which will be reported to the Executive of February 1st;

6 To receive a further report, to agree the capital programme, at the Executive of February 1st.

That the Executive note:

7 the capital resources available to fund the capital programme (see Annex 3);

8 Affordable housing briefing paper (see Annex 4);

Other than those implications agreed with the relevant Officers and referred to below, there are no other implications associated with this report.

Financial Implications	Legal Implications	Community & Environmental Implications	Human Resources Implications	Equality & Diversity Implications
Yes	Yes	None	None	None

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1 Introduction

1.1 Following consideration by the Budget & Strategic Planning Working Group, the Corporate Management Board (both Nov 30), and a challenge by the Team Leaders Review Group (December 6), the draft capital programme for the three years 2007-10, is proposed for consultation. The Executive will consider the results of the consultation at its February 1st meeting, when it will agree the capital programme expenditure and funding.

2. Options and Options Appraisal

2.1 Option 1: That the Executive note the report and agree the recommendations.

2.2 Option 2: That the Executive propose alternatives.

3. Background information

National events and framework

3.1 The Lyons Commission was due to report to the Government by December 21, 2006 on the future shape of local government finance. However, the Chancellor asked Sir Michael Lyons to postpone publication of his report until the Budget, in order to consider the implications of three reports, Eddington [transport], Barker [planning] and Leitch [skills]. Consultation on these issues will close on January 19, 2007. Whilst this might give the Council new opportunities and new challenges, the results will be too late for inclusion in this budget process.

3.2 The Prudential Framework frees a local authority from having to seek Government consent to borrow to fund their capital programme. However there are two constraints. Firstly that the borrowing is affordable. And secondly, that the spending must accord with fairly strict definitions of what counts as capital expenditure. Councils are free to re-invest their capital receipts (income from selling assets), which is what NWDC has done, so avoiding borrowing. The Council has maintained its debt free status but this does not, now, provide any additional benefits.

Local Preparations

3.3 During the preparation of the forthcoming budget, the main highlights have been as follows.

3.4 The Executive decided:

- that priorities would be guided by the existing Council strategies. These priorities were enhanced by analysing the programme over three areas,
    - Spend to Save schemes
    - Business critical schemes
    - Other schemes

- the starting point for budget building, would be the 2006-07 original budget, and the information from the previous round of medium term planning.

- the continued development of medium term planning.

- a timetable which sought to generate Executive proposals before Christmas 2006, so that there would be time for consultation with partners and stakeholders, in accordance with the Constitution of the Council, prior to Executive recommending a budget at its meeting on February 1st 2007.

3.5 Officers then sought to generate the capital "base budget". Due to the turnover of senior finance staff, recently resolved, this started late. It was not possible to present the work on capital to the November 16th Executive. Instead it was considered by the November 30th Budget & Strategic Planning Working Group, and the Corporate Management Board, and on December 6th a challenge by the Team Leaders Review Group. The information will still develop over the coming months, as the consultation responses are made known. The assumptions that guided the assembly of the base budget were:

- Expenditure would continue to be funded by capital receipts. However, officers would explore whether this was the 'best buy', or whether borrowing was better. This will be reported in February;

- Capital receipts generated in the current year would fund the following year's programme. This prudent approach reduced the level of risk. However, the level of capital receipts declines from 2007-08, which would affect the 2008-10 programmes – on the initial three year programme there was a funding shortfall of £5.5m. It was agreed at the B&SP WG, that the level of planned capital expenditure would be set in relation to what was affordable over the three year budget period (2007-10). Further work has fleshed out the implications of the Council's Asset Management Plan, which are at too early a stage to be counted-in as certain resources;

    - The Council's Asset Management Plan identifies asset sales over the two years, up to the end of 2008-09, that are likely to generate further receipts that could total £1.6m;

    - In addition, there are also potential disposals of £1.4m, which are currently subject to contract disposal and are being considered instead for a short term investment option, to generate income rather than be disposed. Disposal can be delayed until 2012 as the asset is appreciating;

    - The Asset Management Plan identifies other managed "investment" holdings of a value of £6m, that could be sold over the longer term, defined as a period beyond 6 years. There is less certainty over both the values and the period of disposal. Also these sales would adversely affect the investment income to the revenue account and the connection between the asset holdings has to be carefully balanced.

- A residual level of capital receipts – some £17m – generated interest which funded the revenue budget. The connection between the two budgets has to be kept in mind;

- The initial projected three year level of spend of £16.117m has been reduced to £10.665m – the top four programmes over the three year planning period are:

Table 1: Initial and Revised three year programme 2007-10 £000's

	Initial Programme	Revised Programme
Housing (New & Renewal)	7,800	4,850
NWLL	1,380	1,380
Transport	1,270	520
Refuse	1,200	600

- There was an inability to spend the programme in-year. This presents the Administration with a choice. It can either roll forward the slippage to future years, or cancel some or all of the slippage. This will generate resources for schemes using the new criteria at Point 4.

4 Strategic Issues

4.1 The **first** strategic issue was that spend exceeded resources from 2008-09 onwards. Indeed, by 2011, the residual level of capital receipts would have been exhausted if spend were to continue at £16m every three years. This was not tenable. Given the pressure on the revenue budget, which suggests that borrowing is a cost to be avoided, the first working assumption was that planned capital expenditure should be reduced to match the level of funding over a three year period.

4.2 The **second** strategic issue was that the focus should shift to generating Savings. Not only in the ability of the capital spend to engender revenue savings, but also in the size of the capital programme. Officers prioritised the draft capital programme into three layers,

- Spend to save;
- Business critical;
- Other schemes,

which was reviewed by the B&SP WG. The revised programme reflects the Member views and further work by Officers. This included reducing the size of on-going programmes, for example, housing, transport, and devolved schemes.

4.3 A reduction in the capital programme could help reduce the level of slippage, with the programme better aligned to the ability to deliver it. Work has taken place to identify the revenue savings from the spend to save schemes, and fold those savings into the revenue budget. The Working Group considered the criteria for spend to save schemes, and recommended that the minimum rate of return should be 15%.

4.4 The **third** strategic issue to consider is changing the policy on capital funding. Officers met with Sector, the Council's funding advisor on November 28th, to explore 'best buy' options. Further work is in train. However, it is proposed that two areas of spend, that are in addition to the draft capital programme, should be financed by prudential borrowing. They are:

- The development of Phelps Parade and Bath Road, which as commercial ventures, should generate additional income to fund the capital investment. If they do not, the investment should not proceed and disposal should be considered.

- The provision of £600k of waste facilities that would be funded from Council Tax, over a 13/14 year period, starting in 2008-09. This has been built into the Medium Term Financial Plan.

4.5 These choices constitute a capital strategy, which is set out at Annex 1.

5 The draft programme and funding

5.1 The revised draft capital programme, is set out in Table 2 (in full at Annex 2), together with the funding. Over the three year period the programme is in balance with the funding. The largest element in the programme is 'Other', at £6,865m over the three year period, of which, Housing at £4.850m, dominates:

Table 1 – Revised draft capital programme bids 2007-08 to 2009-10 £000's

	2007-08		**2008-09**		**2009-10**		**Total surplus**
	Capital	Rev	Capital	Rev	Capital	Rev	
Invest to save	832	-10	-96	-3	174	-54	
Business critical	2,149	64	398	38	343	0	
Other	2,890	0	2,150	2	1,825	0	
Total	5,871	54	2,452	37	2,342	-54	
Less resources bfw	212						
In yr	8,595		700		1,330		
Surplus+/deficit-	+2,936		-1,752		-1,012		+172

6 Consultation

6.1 The timetable for the consultation is set out below. A key element is the review by partners and the Overview & Scrutiny Committee, as follows:

(a) December 21-January 25 Discussions with partners

(b) January 25th 2007 Overview & Scrutiny Committee

6.2 The Executive is keen to listen to the debate on the budget proposals for North Wilts District Council. This debate takes place at a time when the issue of good public services and the level of taxation are to the fore. Following receipt of the first consultation, the Executive will recommend a budget at its meeting of February 1st, 2007, for consideration at the February 22nd Council.

7 Financial Implications

7.1 The whole report is concerned with the Finances of the Council. The generation of further S106 funding to support capital schemes will be in addition to the programme.

7.2 Funding of approved schemes slipped from prior years has previously been identified from prior year resources.

8 Legal Implications

8.1 The Council is required to set its Council Tax before March 11th, of which the consequences of the capital programme is a part.

9 Risk Analysis

9.1 Risks will be assessed as part of the process.

Appendices:	• **Annex 1** Capital strategy • **Annex 2** Revised Draft capital programme 2007-08 to 2009-10 • **Annex 3** Capital receipts funding 2007-08 to 2009-10 • **Annex 4** Affordable Housing Briefing Note
Background Documents Used in the Preparation of this Report:	• Budget & Strategic Planning Working Group, Nov 30 - Initial draft capital programme 2007-08 to 2009-10

Previous Decisions Connected with this Report

Report	Committee & Date	Minute Reference
• None		

Annex 1

Capital Strategy - NWDC

1. Planned capital expenditure is affordable over a three year period. The Prudential Indicators set a maximum level of affordability. The affordability will set the cash limit for capital. Spend to Save Schemes that generate a return of 15% and over, will be self funding, and will be in addition to this cash limit.

2. There is a hierarchy of choice that promotes Spend to Save schemes. Three layers of choice are set out below, with each sub-divided between those that meet Council priorities, and those that do not.

    - Spend to save
        - Council priorities that generate savings, that are cashable or non-cashable, or spend to avoid costs;
        - Spend that generates a return of 15% or more;.

    - Business critical
        - Council priorities.
        - Non-priorities

    - Other schemes
        - Council priorities
        - Non-priorities

3. The policy on capital funding now includes borrowing, as well as the recycling of assets.

4. A de minimus level for Capital expenditure is set at £1k, or a lower sum if it generates external funding.

Spend to Save criteria

5 The investment generates a revenue saving, expressed as a rate of return on the capital expenditure;

6 The revenue saving has to be realised by the reduction in the revenue base budget;

7 The rate of return is set in relation to:

7.1 Council priorities that generate savings, that are cashable, non-cashable, or spend to avoid costs;

7.2 Spend that generates a return of 15% or more