

Date of Meeting	1 <sup>st</sup> February 2007
Title of Report	Capital Budget, Programme and Strategy 2007-10
Portfolio	Leader's Responsibilities
Link to Corporate Priorities	All
Key Decision	Yes
Executive Workplan Ref	A5
Public Report	Yes

**Summary of Report**

To bring before the Executive the final information concerning the strategy and choices of the proposed 2007-08 capital budget and following two year's forecasts, for recommendation to Council.

**Officer Recommendations**

That the Executive note,

1. the £177k resources, now available from 2006-07 programme;
- 2 the capital strategy and spend to save criteria (see Annex 1);
- 3 the changes in spend and resources, in response to the consultation, since Dec 14 (see Annex 2);
- 4 the draft modified capital programme for 2007-10 (see Annex 3);
- 5 the capital resources available to fund the capital programme (see Annex 4);
- 6 affordable housing briefing paper (see Annex 5);

That the Executive,

- 7 agree the Capital Budget, Programme and Strategy 2007-08;
- 8 recommend it to the Council meeting of February 22<sup>nd</sup>, 2007.

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

<b>Contact Officer</b>	Peter Timmins, Interim Section 151 Officer, 01249 706219 ptimmins@northwilts.gov.uk
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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 revised draft capital programme for the three years 2007-10, was considered by the Executive (on December 14) as the basis for consultation. The Budget & Strategic Planning Working Group of January 18<sup>th</sup> considered proposals, that were modified to reflect the feedback so far, and recommended one change, which has been incorporated into the programme.
- 1.2 This meeting of the Executive will recommend the programme expenditure and funding for adoption by the February 22<sup>nd</sup> Council. The Overview and Scrutiny Committee will consider the recommendations at its meeting of February 7<sup>th</sup>, which views will be considered by the Executive on February 8<sup>th</sup>, who will modify the recommendation, if required.

## **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 closed 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 1<sup>st</sup> 2007, to the Council.

3.5 Officers then sought to generate the capital “base budget”. Due to the turnover of senior finance staff, resolved in Sept/Oct, this started late. It was not possible to present the work on capital to the November 16<sup>th</sup> Executive. Instead it was considered by the November 30<sup>th</sup> Budget & Strategic Planning Working Group, and the Corporate Management Board, and on December 6<sup>th</sup> a challenge by the Team Leaders Review Group. The December 14 Executive agreed the revised draft capital budget as the basis for consultation. 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 paid/agreed 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 revised draft capital programme Annex 3 (Dec 14) has been modified in the light of feedback and to improve it technically. Expenditure on the Private Sector Housing Programme is now expressed in gross terms; the Affordable Housing Programme has been increased by £250k (to £1m) in 2009-10; the Street Improvement Budgets for 2008-10 have been re-instated, at a total cost of £100k; and, at the suggestion of the January B&SP WG, the Executive Capital Funding Scheme has been reduced from £100k in 2007-08, to £80k. The funding of these changes is set out at paras 4.1 and 4.5, and Annex 2.
- This is the fourth iteration of the capital programme – the initial projected three year level of spend was at £17.317m, whilst we have ended up at £12.195m – the top four programmes over the three year planning period, and the total of all the schemes, are:

**Table 1: Initial, Revised, Modified, Final, three year programme 2007-10 £000's**

	Initial (Nov 30)	Revised (Dec 14)	Modified (Jan 18)	Final Feb 1
Housing (New & Renewal)	9,000	6,050	6,300	6,300
NWLL	1,380	1,380	1,380	1,380
Transport	1,270	520	620	620
Refuse	1,200	600	600	600
Total of all the schemes	17,317	11,865	12,215	12,195

- The inability to spend the programme in-year continues. The Month 8 monitor notes that there is slippage of £3m into future years but that £177k of resources can be released to fund the 2007-10 programme.

## 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 from grants and capital receipts over a three year period. There is one change to the previous interpretation of this 'golden rule'. The previous interpretation only counted capital receipts if they had been agreed/paid before the three year planning period commenced. As noted at 3.5, it is likely that further "non-controversial" capital receipts will be generated during the planning period. A prudent counting of 20% of these receipts has been included in the resources, worth £330k.

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 Executive agreed the criteria for spend to save schemes, with a minimum rate of return at 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 28<sup>th</sup>, to explore 'best buy' options. The initial indications were that the borrowing costs are less than would be earned from investing capital receipts. A model was developed which retains the capital receipts, and borrows to fund the capital spend. The borrowing is repaid over a longer period – say 20 years - from the capital receipts, extending the time when interest is earned at a higher rate than it costs. A feature of the Prudential regime is that the Council can borrow one amount to fund three years of capital expenditure, lending out what it cannot immediately use. Borrowing in the range £15m-£19m is possible, as long as the Prudential Indicators set a framework that encompasses that range. The features of the model were discussed with Sector, Tradition and the District Audit on January 22<sup>nd</sup>. The brokers confirmed the soundness of the model, and that this prudent use of the markets flexibility would earn the Council at least £100k per annum. The proposal is to deploy this income to fund revenue expenditure.

4.5 Independent of this exercise, for the first time, interest on capital receipts has been counted as a funding source for the capital programme. It generates just over £520k of funding.

4.6 Finally, 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.

4.7 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 3](#)), 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 £8.415m over the three year period, of which, Housing, at £6.300m, dominates:

**Table 2 – Modified draft capital programme bids 2007-08 to 2009-10  
£000's**

	2007-08	2008-09	2009-10	Total
Invest to save	832	-96	174	
Business critical	2,149	398	343	
Other	3,270	2,600	2,525	
<b>Total Expenditure</b>	<b>6,251</b>	<b>2,902</b>	<b>3,042</b>	<b>12,195</b>
Less				
Capital Receipts (CR's)	8,322	630	930	
Grants	650	600	600	
Interest on CR's	333	126	60	
<b>Total Funding</b>	<b>9,305</b>	<b>1,356</b>	<b>1,590</b>	<b>12,250</b>
<b>Surplus+/deficit-</b>	<b>+3,054</b>	<b>-1,546</b>	<b>-1,452</b>	<b>+55</b>

## 6 Consultation

- 6.1 A key element was the review by partners the B&SP WG, with the Overview & Scrutiny Committee to review the process following this meeting, on February 7th.
- 6.2 The timetable for the process is set out below. A key element was/is the review by partners and the Overview & Scrutiny Committee:
- December 21<sup>st</sup> - January 25<sup>th</sup> Discussions with partners and residents
  - December 14<sup>th</sup> Executive
  - January 18<sup>th</sup> Budget & Strategic Planning Working Group
  - February 1<sup>st</sup> Executive
  - February 7<sup>th</sup> Overview & Scrutiny
  - February 8<sup>th</sup> Executive
  - February 22<sup>nd</sup> Council

The Executive has listened to the debate and decided that priorities would be guided by existing Council Strategies.

The proposed 3 year capital budget has been finalised at £12.195m which is £5.122m less than the initial budget proposed on November 30<sup>th</sup>.

- 6.3 A report setting out the summary of the feedback from the Council's budget consultation is going to Council on January 30<sup>th</sup>.

Part of the feedback received was in response to the external Peoples Voice Survey. Respondents were asked to assess the importance of each of the Council's 25 Pledges. The most Pledges viewed as most important (with 80% or more people stating they were important) are set out in the table below, showing links to Capital Programme Projects where applicable:

**Table 3: Pledges and Links to Capital Programme**

<b>Pledge</b>	<b>% who rated this important</b>	<b>Links to Capital Programme Projects</b>
Improving recycling	96%	Bids 9,12
Cleaning up grot spots	96%	Bid 12
High customer standards	95%	Bids 1,3,13,14
Removing abandoned vehicles	92%	Bids 7,26
Adapting homes for the disabled	91%	Bids 23
Bringing empty homes back into use	90%	Bids 23
Recycling green waste	89%	Bids 12
Improving access to services	88%	Bids 1,3,13,14
Making decisions based on feedback	88%	Bids 1,3,13,14
Improving home energy efficiency	84%	Bids 23
Creating a one-stop-shop	83%	Bids 1,3,13,14
Helping local projects	80%	Bids 11, 29 -31
Promoting local produce	80%	

## **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 11<sup>th</sup>, 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.

<b>Appendices:</b>	<ul style="list-style-type: none"> <li>• <b>Annex 1</b> Capital strategy and spend to save criteria</li> <li>• <b>Annex 2</b> Changes in spend and resources since December 14 2006</li> <li>• <b>Annex 3</b> Modified Draft capital programme 2007-08 to 2009-10</li> <li>• <b>Annex 4</b> Capital receipts funding 2007-08 to 2009-10</li> <li>• <b>Annex 5</b> Affordable Housing Briefing Note</li> </ul>
<b>Background Documents Used in the Preparation of this Report:</b>	<ul style="list-style-type: none"> <li>• Budget &amp; Strategic Planning Working Group, Nov 30 - Initial draft capital programme 2007-08 to 2009-10</li> <li>• Executive, December 14 - Revised draft capital programme 2007-08 to 2009-10</li> <li>• Budget &amp; Strategic Planning Working Group, Jan 18 – Capital Budget and Strategy 2007-08 to 2009-10</li> </ul>

**Previous Decisions Connected with this Report**

<b>Report</b>	<b>Committee &amp; Date</b>	<b>Minute Reference</b>
<ul style="list-style-type: none"> <li>• None</li> </ul>		



## **Capital Strategy - NWDC**

1. Planned capital expenditure is affordable over a three year period. This is calculated as:
  - Capital Receipts paid/agreed in the year immediately before the three year budget period, and 20% of 'non controversial' capital receipts to be generated during the planning period;
  - Interest on capital receipts;
  - Capital grants.
2. In addition, the Prudential Indicators set a maximum level of affordability. The affordability will set the maximum 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.
3. 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
4. The policy on capital funding now includes borrowing, as well as the recycling of assets.
5. A de minimus level for Capital expenditure is set at £1k, or a lower sum if it generates external funding.

### **Spend to Save criteria**

- 6 The investment generates a revenue saving, expressed as a rate of return on the capital expenditure;
- 7 The revenue saving has to be realised by the reduction in the revenue base budget;
- 8 The rate of return is set in relation to:
  - 8.1 Council priorities that generate savings, that are cashable, non-cashable, or spend to avoid costs;
  - 8.2 Spend that generates a return of 15% or more